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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

WEDNESDAY, AUGUST 19, 1981

Morning sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk: White, G.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Financial Executives Institute Canada:

Smith, K. H., President

Hewitt, W.E., Manager, Pension Investments, Treasurer's Department,
Imperial Oil Limited

White, C. G., Vice-President, Metropolitan Life

SELECT COMMITTEE ON PENSIONS

Wednesday, August 19, 1981

The committee met at 10:16 a.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I see a quorum.

Mr. Mackenzie: Your guys haven't been told what they're going to do yet with all the independent papers.

Mr. Chairman: With all the independent thinkers amongst the Conservative Party, that will remain in doubt for some time probably.

Mr. Mackenzie: Your own guys tell me they don't know what the orders are yet.

Mr. Chairman: I won't engage in a debate on political discipline.

Since I announced the additions to your binders the last day, for purposes of the record I might indicate that exhibit 53 is now with you. It is a committee research officer's Highlights of Saskatchewan's Submission to the National Pensions Conference. Exhibit 54 is by Claude Castonguay, Public and Private Dimensions of Pension Reform, an address to the National Pensions Conference, Ottawa, March 31, 1981. Exhibit 55 is a submission from the Board of Trade of Metropolitan Toronto. Exhibit 56 is a submission from Mr. D.S. Juneja, president, William M. Mercer Ltd., dated August 14, 1981.

Exhibit 57 is a submission from the Financial Executives Institute. That is in your binder, and those are the gentlemen who are here this morning. Exhibit 58 from James E. Pesando is The Report of the Royal Commission on the Status of Pensions in Ontario: A Discussion Paper, Institute for Policy Analysis, University of Toronto, March 1981.

Exhibit 59 is a submission from the Canadian Labour Congress--and we heard from them yesterday--and exhibit 60 is a submission from the Ontario Federation of Labour. We, of course, heard from them yesterday as well.

Mr. Epp: Excuse me, Mr. Chairman, does the clerk have an updated agenda?

Mr. Chairman: The clerk advises me that he will have the updated agenda distributed this afternoon, if that is satisfactory.

Mr. Epp: Good man.

Mr. Chairman: We are fortunate this morning in having with us Mr. Ken Smith, Mr. Cecil White and Mr. William Hewitt, all from the Financial Executives Institute. As I mentioned earlier, their submission is exhibit 57.

Gentlemen, welcome. I will turn the meeting over to you. If you would be good enough to make your submissions, we then will respond, I am sure, with questions seeking answers.

Mr. K. H. Smith: Thank you very much, Mr. Chairman. We are very pleased to be here and, hopefully, we can impart some of the experience we have gained through a rather significant study of pension issues over a fairly long period of time.

I might mention that the Financial Executives Institute is a body of about 1,100 members in Canada and about 12,000 plus in the US. These people are senior financial officers of the larger corporations in Canada. There are about 600 companies represented.

10:20 a.m.

Mr. Chairman: Could you indicate what corporations you are associated with?

Mr. K. H. Smith: As far as that is concerned, Mr. Cecil White is vice-president of Metropolitan Life. In Ottawa, he is an actuary and he is also the chief financial officer of that organization. Consequently, he has had a great deal to do with pension plans generally and has had a very keen interest in this area and, in fact, all employee benefit items. He is currently chairman of the employee benefit committee of the Financial Executives Institute Canada.

Bill Hewitt is manager of pension funds investments for Imperial Oil Limited and consequently is quite expert from a financial aspect of pension plans. In addition, he has had a great deal of experience in the pension plan benefit structures and the philosophy of them.

He has been chairman of our committee, which over the years has conducted very significant pension surveys and, indeed, we feel the most in-depth pension surveys made in Canada. He was very largely responsible as chairman of the committee that presented a brief to the Ontario royal commission some years ago. He has had a very deep and abiding interest in this area. Consequently, I feel that we have a two people here who are quite competent to give something of their experience.

I am the president of FEI Canada full-time now. I was formerly with George Weston Limited as vice president/secretary and while I was there I had responsibility for the pension plans within that organization.

Interjections.

Mr. K. H. Smith: I would gather most of the members of the committee have at hand the brief that we put together rather quickly for this committee. If there are any who do not have it, we have additional copies here.

Mr. Cousens: Could I have one too please?

Mr. K. H. Smith: As I mentioned, we have had some experience in this area. If this committee would like, we could provide to them a copy of the latest survey that we have done, which was published in 1980, our fourth pension survey. The fifth one has been completed but is now in the process of being put together and will be published later on this year. I can leave a copy of these for you.

Another study that would be of interest to you is called Canada at the Pension Crossroads, which was published back about two years ago. It is a very fine study which has analysed the responses from 4,000 pensioners. It delves into not only the formal pension but all forms of retirement income to determine whether or not or to what extent pensioners are able to cope with living costs.

I would commend both of those to you. If you would like to have copies of Canada at the Pension Crossroads, I can make those available to this committee.

Mr. Chairman: Of the second publication you mention, we had a limited number. I think we had one for each party caucus of Canada at the Pension Crossroads. If you have additional copies--

Mr. K. H. Smith: Yes, we do.

Mr. Chairman: Then we would be appreciative because we did not attempt to photocopy these. Thank you.

Mr. K. H. Smith: Perhaps we might proceed, Mr. Chairman. Cec White has been the one who has largely been responsible for putting together this submission.

Perhaps it might be as well for us, first of all, to ask him to give a sort of an overview of the presentation and then perhaps you will throw some questions at us.

I would like to emphasize very clearly that we are not trying to push a particular position at all. We are here to try to assist this committee by providing objective information as clearly as we can and to try to assist you in your job of analyzing this whole subject of pensions for the benefit of the Ontario government.

Cec, would you like to present this?

Mr. White: Mr. Chairman, in line with what President Smith just said, we are here to perhaps add to the understanding and comprehension of the members of the committee, particularly with regard to pension plans. We are not talking too much about social security. I should lead off by saying that I think the value of what you may find in our submission--and it is very short--flows mainly from two sources.

First of all, there is value in Financial Executives Institute Canada's annual surveys of pension plans in Canada and the various studies we have made, like Canada Pension Crossroads, and so on, but more recently and more particularly, I think, there is value that flows out of the National Pensions Conference last spring in Ottawa. I think it is a fair statement that our delegates--we were the delegates to that conference from Financial Executives Institute--and other delegates from national organizations, representing in a general kind of way the sponsors of pension plans, came out of the conference feeling quite positive about it and about the various things that emerged, the consensus that was reached.

Some of them are reflected in this submission. I am majoring on this because I think you might find it helpful later on in your deliberations as to what you are going to recommend to the Legislature of this province in the way of action.

If I could start on the second page of our submission, the long paragraph in the middle of the second page is drawn from our survey in 1980. Its chief purpose is to present to people in a factual way the point that if you had the ability to take a snapshot, as of today, of all the pension plans in effect in this province, many of which have been in effect for many years and many of which are quite mature plans, you would probably find about 80 per cent of the work force of the employers that have those pension plans actually participating. That would be the case on the day you took the snapshot. That is the result found from our survey in 1980.

I will admit that is a Canada-wide survey, but I would claim that it is just as apt in this province, perhaps even more so, than in other provinces. The point that I am trying to bring out here is that an employer-sponsored pension plan can do a very effective job in providing pensions for employees by bringing the employees into the plan somewhere around age 25--age 23--sometimes as early as 21, but more customarily around 23 to 25, after a very short eligibility period--say, one year's service--something of this nature.

The point I want to emphasize is that participation in the plan for pension purposes is really from roughly age 25 to 65. It is that 40-year span that is important. All the younger people who are working in this province for various employers prior to age 25 will enter their plans as they reach those ages and will come out with adequate pensions provided that, coming out of the deliberations of this committee and other work that is going on, private employer-sponsored plans, which we represent today, move in the direction of the improvements which are recommended in this submission. They are in this submission because, in our view, what we say in here is generally acceptable to the sponsors of private plans. We cannot claim that every sponsor would agree with everything we say in here. That would be too much to expect. In a general way, what we say in here your committee can rely on.

For example, we will be talking in a few minutes about improving the vesting. It was perfectly evident last spring at the

National Pensions Conference that the sponsors of pension plans are prepared to go at least as far as recommended by the royal commission, and perhaps even beyond it. We think they are prepared to go just as soon as possible to, say, vesting after five years of service or when age plus service add up to 45, if that happens to be earlier, to protect the older employees.

10:30 a.m.

Mr. Williams: May I just interrupt for a moment? I am just trying to get a point of clarification. In your initial statistical information that you gave us about the 80 per cent factor and so forth, it is my understanding that, in referring to these percentages, you are relating it solely to the large corporate sector of which you are representative and not necessarily speaking on behalf of what we identify as the small business sector.

Mr. White: That is correct. These are 205 primary plans and 43 supplementary plans from relatively large employers.

Mr. Williams: This is large industry that we are addressing ourselves to and your statistics are speaking to. So we are not necessarily covering that other area of the private sector which relates to small business.

Mr. White: That is correct.

Mr. Hewitt: Except for the fact that the coverage analysis in the Financial Executives Institute of Canada report does delve into the money purchase plan, if you will, and comes up with a total analysis of coverage of workers for some kind of savings or pension--

Mr. Williams: In that number--205 corporate respondents as you identify them--what would be the smallest firm involved as far as number of employees goes? Are we talking about 200 or 300 employees? Just to get an appreciation of how big your corporate clients are here so that we know what we are talking about, is it the really big national corporations or large ones by provincial standards or whatever?

Mr. K. H. Smith: Mr. Chairman, we have about 600 companies represented, so we have to go down beyond the very large ones.

Mr. Hewitt: I believe some have even fewer than 100 employees. It is perhaps better to classify it in terms of net worth. Membership in Financial Executives Institute Canada is by way of individual, but in order for an individual to qualify for membership, one must be affiliated with a corporation that has a net worth, equity in the business, of at least \$5 million. In terms of the 205 corporations surveyed, I believe there were a few--possibly fewer than five--I would have to look at the data--employers who had fewer than 100 employees. In other words, some businesses were very capital-intensive.

There is a section in the report on Survey of Pension Plans in Canada, March 1980, that does define the profile of the sample in terms of the size of funds, in terms of the size of the firm itself, in terms of net capital employed, shareholders' equity, the number of employees and covered employees. It is, if you will, a fact book, a data base, that was referred to earlier in the prologue.

Mr. Chairman: Your figures or numbers apply to Canada as opposed to Ontario. I assume you are a Canada-wide organization, so I guess we have to put this in that context as well, although I appreciate what you are saying in terms of Ontario vis-a-vis other provinces, in terms of industrial development.

Mr. White: I just want to say that in the few days we had to put this submission together we didn't have time to analyse out the Ontario data. If the committee wants that done, you ask us after today and give us adequate time--which wouldn't be very long--and we would certainly make a good stab at that.

Mr. Chairman: I don't want you to be apologizing. We should be apologizing for that because it was us who put the pressure on you to come forward quickly because of our particular time frame so.

Mr. White: I guess we are all under some type of pressure.

Mr. Chairman: I hate to interrupt you.

Mr. Williams: Carry on. That clarifies it for me. Thank you.

Mr. K. H. Smith: Mr. Chairman, I must just add that a figure of five million was mentioned. At that time the threshold was two million. We have recently changed the factors to adjust for inflation since--

Mr. Williams: The capital net worth?

Mr. K. H. Smith: The net worth.

Mr. White: The point I was making, Mr. Chairman, is that with the improvements in employer-sponsored pension plans relative to vesting and relative to preservation of value and portability, which we will discuss in a few minutes, this 80 per cent coverage picture that you would get from a snapshot would be perfectly adequate for the employer-sponsored plan represented here to be doing a good job in this province.

The point is that unlike medical care, because no one knows when he is going to be sick, it is not necessary to have 100 per cent coverage all the time for pensions, because people know approximately when they are going to retire. As a matter of fact, they probably desire and probably need some flexibility in their planning for retirement. Some may plan earlier than others, some later. That's really what we are bringing out in this paragraph.

Now let's move on to the next three paragraphs. We are still trying to throw new light and new perspectives on the coverage of employer-sponsored pension plans in this province, because what you gentlemen are grappling with, as I'm sure you know, is a very complex subject and you can get different attitudes and perspectives depending not only on what data you use but on how you look at the same data from different angles.

There is an actuary in this city named Arnold Shell. He is, certainly in my book, one of the leading pension actuaries in Canada, and he has done a very careful analysis of coverage. I admit again that these are national data I am talking about. But he took the national data and broke them down by income strata up to the average industrial wage which, as you know, is the general area of old age security and Canada pension plan, to double the average industrial wage and then above double. He said that currently, in 1981, the first strata up to the average industrial wage in a general way receive adequate income replacement ratios at age 65 from the combination of old age security, Canada pension plan, guaranteed income supplement, guaranteed annual income system, et cetera.

As a matter of fact, as I am sure you know, this is brought out in volume VIII of the report of the royal commission, where they show the actual replacement ratios. I think they are quite reasonable, although quite a few of them are over 100 per cent.

Shell then goes on to say that people who are earning more than double the average industrial wage are well able to look after themselves; they are not the people at whom you ordinarily aim social policy initiatives. So Arnold calls the target group the people between the average industrial wage and double that figure. Then he studied the ones between age 25 and 65. As I was explaining a while ago, this is the area where the employer-sponsored pension plans do their work and make their contribution.

On page three in the second paragraph when you hone the figures down, when you fine-tune them, when you sharpen your focus on them you will find, as he says, in this target group in the private sector--this is leaving the public service plans out of account for the moment--68 per cent were covered for either a registered pension plan or a personal registered retirement savings plan in 1977. I stress that year because it is four years ago and these things are changing rapidly. You will notice the last percentage. When Arnold put in the public service plans, the 68 per cent who were covered went up to 77 per cent.

These are the thoughts on coverage that we would like to leave with you gentlemen. If you want us to follow up on some later day and expand on any of them, we would be more than happy to do so. I think you can see where we are heading in making these presentations. We are heading towards allowing the employer-sponsored pension plans to continue to develop and spread in this province.

Most of the problem with lack of covererage, as I'm sure you know, is in the general area of small business. Attempts are being made to cover these small businesses currently through plans set up by boards of trade. I think the board of trade in this city is in the process of creating such a plan. We have just created one in the city of Ottawa, and I think other cities will do likewise. Other organizations are creating plans to try to reach out to the small businesses.

We have a very difficult problem here, as I am sure you will appreciate, because for many small businesses the paramount issue is the survival of the business; the paramount issue is having a job. I think that some can claim reasonably legitimately that the extra costs of a pension plan are just more than they can bear, at least at the present time.

Mr. Gillies: Could I just ask a question? It's on this area of coverage, and if there is a question of your moving on to another area--

Mr. Chairman: Perhaps it would be more appropriate to listen to the presentation and have all the questions then; otherwise we are going to get out of control.

Carry on, Mr. White.

Mr. White: Thank you, Mr. Chairman.

Our next main area is one where, as I said at the beginning, we are reflecting to you what we sincerely believe came out of the national pensions conference last spring.

The first paragraph that I draw your attention to on page four is the third paragraph. The philosophy that pensions represent deferred compensation is gaining acceptance. It's too early to say, as I'm sure you realize, that it is accepted, but attitudes among sponsors of employer-sponsored plans have moved a long way from the days when pensions were regarded as rewards for long and faithful service. We are moving, I think, quite rapidly towards this concept of deferred compensation with all that that carries with it.

Flowing out of that, as a reflection of that, the attitude of the representatives of the employers in Ottawa last March and April, as I said earlier, was that they would be interested in improving vesting, at least to the point that we recommend in this submission, which, as I say, is vesting after five years of service, or when age plus service add to 45, if that comes earlier. The locking in of employee contributions would go along with that vesting.

Some employers would disagree with me, but in general I think the sponsors of pension plans are prepared to accept what's in the second-last paragraph on page four--the idea that in a contributory plan when someone terminates service with a vested benefit he should not have paid for more than half that benefit with his own contributions. Plans can make appropriate adjustments

for that. This is a benefit that's not without cost. They may have to adjust other factors in the plan to allow for that, but those costs can be worked out if the freedom is left to the employers, the sponsors and their unions--if there are unions--to negotiate these things.

On the question of vested pensions, it was very evident at the national pensions conference that the purchasing power of a vested pension has to be maintained in some way. For the future health and vigour of the private pension area we have to find ways of doing this. As you know, ways have been discussed of relating the purchasing power of such pensions, of tying it in, to the level of investment income on the assets for the fund, and things of this kind.

The way that I favour personally is to move down the road of portability. I have been reading the transcripts of this committee. I know you have had discussions about portability--discussions about what it really means, et cetera.

I think the concept of it is relatively simple. The concept is that when someone terminates service and has a vested pension benefit, instead of leaving that vested pension benefit in the plan for his former employer, he should be allowed to transfer with him a value represented by that vested pension, which, in the concept of the Financial Executives Institute Canada, he may either move into the pension plan of his new employer or, if he is going out of the labour market or for other reasons, he can put it into his own private RRSP.

We visualize that that RRSP would definitely be locked in until retirement age--none of this business that you have with RRSPs now, which are being used just as a tax-avoidance vehicle. With locked-in RRSPs and with the ability to transfer to a new employer, we believe that that system of portability would go a long way towards preserving the value of a vested pension that someone's taking with him.

Since I come from Metropolitan Life you won't be too surprised to learn that I very much favour the system developed by the life insurance industry but which is by no means intended to be limited to the life insurance industry. As a matter of fact, the industry is very keen to get it expanded to as many employers as possible throughout Canada and particularly in this province. We feel that our system is quite practical; we feel it is workable; we feel it is relatively simple to present to the employees. As a matter of fact, I have kits with me today. If any of the members of the committee would like a kit on this portability arrangement I would be more than happy to present them to the clerk of the committee.

Then we come down to the last point that we deal with, the preservation of purchasing power of pensions in the course of payment. This is something that you should never lose sight of because as the years go by and we all wrestle with these pension problems, which we have been doing now for some years, we recognize basically, and we did recognize initially, the ravages of inflation.

We make this our first point and we must not lose sight of it. Inflation is a destroyer, and its negative impacts are not just on pension plans in this country but on our whole society. Pension plans are only one of the victims. So the paramount issue in all of this is to bring inflation under control. But pending that, I would particularly like to bring out this morning that a great deal is being done to maintain the purchasing power of pensions in the course of payment.

We are all familiar with the indexing to the consumer price index in the old age security, the Canada pension plan and in many public service plans. But not too many people are familiar with the effort, work and money that have gone into preserving this purchasing power among the sponsors of pension plans that we represent. This is included in our survey each year.

Seventy-five per cent of the employers we represent who responded to our survey in 1980--the percentage will be up in 1981--indicated that they have taken steps to preserve the purchasing power of those pensions. Many of those steps consist of so-called ad hoc adjustments. It is done on an ad hoc basis, I am sure you understand, because the employers, not having unlimited taxing power, cannot afford to saddle their companies with a liability, they are not sure they are going to be able to meet in the future, so they go into it on an ad hoc basis.

While the adjustments may be made on an ad hoc basis and presented in that manner to the pensioners, in many cases they have been worked out in the calculations as if they were indexing. Certainly they are tied to changes in the CPI. They may not cover the full extent of those changes every year, but they cover a reasonable percentage of them.

I want to leave you with the understanding that a great deal is already being done to preserve the purchasing power of pensions in the course of payment, that is, after retirement. Of course a great deal of preservation occurs before retirement through the operation of things like final average salary formulas, updating of career average, and so on.

Those are the essential points that we bring out in our submission, Mr. Chairman. We would be glad to talk to you about them and expand on them if you wish.

Mr. Chairman: Thank you very much. Mr. McClellan has a question that he wishes to put.

Mr. McClellan: Yes. I believe Mr. Gillies is interested in this too. It is the question of the coverage section of your submission. On page two you make the point that was made yesterday as well by the Canadian Manufacturers' Association that gaps in coverage are not "as serious as they are alleged to be," to quote from your report. Then you go on to talk about your survey and the 80 per cent of employees in your survey being covered adequately.

The royal commission has identified coverage as the most important problem. Again, I am simply asking you if you disagree with the findings of the royal commission and specifically if you disagree with the findings of the study that is referenced in volume IX by Harry Weitz, Pension Coverage and Its Potential in Ontario, which indicates that in the private sector only 49 per cent of men and 22 per cent of women have pension plan coverage. Do you gentlemen dispute that finding?

Mr. White: We do not dispute the finding itself, but our attitude to this hinges on the point I made at the beginning of my presentation. You can use the same statistics and the same data and look at them from different points of view and come up with different conclusions, and I will demonstrate that in a moment.

10:50 a.m.

Just as with you gentlemen in your deliberations when all this process is finished, and you are trying to formulate the recommendations you are going to make to this House, your approaches and your attitudes will be influenced not only by your own personal views and personal biases and perspectives, but by the political views of the groups that you represent. You can find data and find statistics and look at them in a certain way and they will support the point of view that you want to present.

Let me just illustrate that. If you will look in volume VIII of the report of the royal commission, on page 46, there is a table 27. Now this table, I should explain, comes out of the very excellent survey made for the royal commission by the Southam organization. You will recall the survey, which was an opinion poll type of survey. I personally think it was extremely well done. I was impressed with the results that came out of it.

Table 27 tabulates, by age group, the responses from the people they polled as to the sources of their expected retirement income. It is interesting that 51 per cent of them expect to have a pension from their company pension plan when they retire, and 26 per cent of them expect to have a personal registered retirement savings plan.

Now I realize those percentages are not mutually exclusive, so you are not allowed to add them together. If you did, you would get 77 per cent, which happens to be the same percentage Arnold Shell had. But if you allow for overlapping, Arnold Shell went into this question of overlapping very carefully and brought out that among holders of registered retirement savings plans, 40 per cent of them were also members of pension plans.

Mr. McClellan: That is 51 per cent said they expected to have a company pension.

Mr. White: That is right.

Mr. McClellan: That is in the realm of intentionality.

Mr. White: Your point is well taken because without the improvements in employer-sponsored plans that I was discussing a while ago, their expectations may not come to fruition. That is correct.

Mr. McClellan: That is precisely the point.

Mr. White: But with more liberal vesting and improved portability, they can be expected to come to pass.

There is another set of numbers I would like to offer to you, and these are from Harry Weitz's studies as reported in Volume VIII. He has a table on page 109, in which he gives the distribution of pension plan members in Ontario by age and sex, showing the percentage of employed, paid workers covered by pension plans in 1976. One trouble with all of this, and unfortunately it is unavoidable because there seems to be such a time lag involved, is it does not matter what source you take your data from, whether it is from the royal commission, our own, or whatever, we always seem to be working with data that is four or five years old.

However, looking at Harry's figures, I went over and took out the sums for age 25 to age 65 because that is the span of life that we are concentrating on in the pension plan area. You will find, according to his numbers, that 56 per cent of employed, paid workers in those age ranges are members of registered pension plans. If you look in Harry's next paper, which is on page 130, there is table 4 which shows that 11 per cent of the self-employed in this province have registered retirement savings plans. Again there is some overlapping. Do not take 11 per cent, take maybe seven as being reasonable, and by adding 56 and 7, you will see that 63 per cent have coverage of one or the other. I submit to you that 63 per cent is a long way from 40, a long way from 43. It depends on how you look at it.

I want to stress the point that it depends on how you look at these things because Harry's percentage is valid but it is a global percentage. Harry looks at the percentage from age 18 not just to 65, but from age 18 to omega, the end of the mortality table. He takes all those people and he relates the number of people in pension plans to all those people.

Now that span was perfectly satisfactory--perhaps he should not have gone beyond 65; I don't know--but it was more or less satisfactory for the Canada pension plan because that does cover 18 to 65. It probably takes people in at 18 because the feds want the tax base to be as big as possible, not that it makes any difference to the benefit coming out the other end. When you are looking at privately sponsored pension plans, the action is between 25 and 65. If you want to come up with a realistic measurement as to who is covered, you should concentrate on that.

If you take the global percentage from 18 to omega, you get 43 per cent, the percentage Harry has been quoting since the mid-50s. It makes Toronto Star headlines every time it is quoted.

Mr. McClellan:: Just to clarify, I don't have my copy of volume VIII in front of me but, for members of the committee, what I am referring to is Exhibit 27, which was prepared by committee Mr. Jennings of committee research staff. On page five of that document there is a reference to the age tables the witness is referring to. I am not clear from my notes whether Mr. White was talking about coverage by age for all workers, or whether he was talking about coverage by age for workers just in the private sector. My impression is that Mr. White was including public and private sector employee coverage when he was giving his age percentages. Am I correct?

Mr. White:: These are employed paid workers. That would cover everybody, I guess.

Mr. McClellan:: There is a big difference, as I am sure you know, between the public sector and the private sector. The public sector coverage is 95 per cent of employees; in the private sector, coverage is 39.1 per cent of employees. When you give us your interpretation of coverage between what you refer to target areas of 25 to 64, you are mixing in public and private, and you are getting a much higher percentage of covered employees than you would get if you just looked at the private sector.

The only question that remains in my mind is the adequacy of coverage in the private sector. That is what we are dealing with as far as I am concerned, and that is what the royal commission was dealing with. With respect, I don't think that cloud has such a silver lining as you may put on it.

Mr. White:: I think it does, Mr. Chairman. The 56 per cent I took from page 109 of Harry Weitz's paper, and I added something for RRSPs. I took seven of the 11 per cent and got it up to maybe 63 per cent. That compares with the 77 per cent, which is at the top of page three, second paragraph. That 77 includes public sector pension plans as well as private sector pension plans.

I don't accept the low percentage for coverage in the private sector. Again, as I was trying to explain, that low percentage is on a global base; it is based on going right down to age 18 and right up beyond 65. I want to make a realistic comparison to what private sector pension plans are doing. The comparison should be in the areas of age at which the action takes place to provide pensions. There isn't much action before age 25.

Mr. McClellan:: Using your assumptions for the sake of discussion, can you give us some idea of what percentage of women in your target group, who are working in the private sector, would have coverage? Mr. Weitz says 22 per cent.

Mr. White:: I think the best thing I could do would be to give to the secretary complete copies of the material, Arnold Shell's work, from which these data are drawn. I would suggest that the committee take some time to look at that and see if they find it acceptable.

Mr. McClellan:: That may be helpful. Just a final

comment. In the absence of coverage we have 53 per cent of elderly people in receipt of welfare programs. Unless we can solve the coverage problem, we continue with the reliance on welfare programs as the means of providing retirement income. That is why it is such a central issue.

Mr. Chairman: I might say, Mr. McClellan and other members of the committee, Mr. Shell has requested to appear before the committee, so you will have an opportunity of discussing some of these matters with him.

Mr. White: On the score of welfare, I don't mean to play that down. I recognize the heartache involved for the people concerned, and also the financial load for society to bear. But there is a point I would like to make, which I think might be of value to the committee.

11 a.m.

Canada is in a uniquely fortunate position--I am over on the social security side now, which we don't intend to talk about very much--in that our Canada pension plan, as you all know, began in 1965. The OASDI, old age survivors disability income insurance program in the United States began in 1937. They are very roughly comparable, but they are comparable enough that Canada can learn a lot by examining carefully what has happened and is happening to OASDI, because what's happening in OASDI today is Canada 30 years from now, because their plan is 30 years older than ours. I think it's important to keep that in mind. It ties in with this point about welfare because when the OASDI program started in 1937, we were just beginning to come out of the depression.

After the second world war the United States, like Canada and other countries, went through some fairly inflationary years in the late 1940s and this was exacerbated by the Korean war, which came in the early 1950s. You had a kind of an inflationary period there. I remember very well that the big question mark in Washington during those years was: Here is this social security program from 1937 on and a social assistance program right alongside it, their version of guaranteed income supplement. The intention was that social security would take over and social assistance would wither away and dry up; it wouldn't be needed any more. And in 1958, 20 years after they set the program up, the social assistance were growing bigger and bigger.

The point I am making is that inflationary times lead to that. It is almost unavoidable.

Mr. Williams: I wonder what specifically has happened to OASDI? You say you wouldn't like to see us in that situation.

Mr. White: You have seen the newscasts, I am sure, on American television and I am quite sure the committee has a copy of the report of the President's commission on social security, don't you? There is quite a bit of agitation going on in Washington right now about social security, about the financing of it, similar to the problems that are facing us about the indexing of it, about the level of the benefits, about whether they will

remove the minimum benefits. There were demonstrations on Capitol Hill not many weeks ago on these very points. I just suggest to you that it could be helpful to you to take a quick look at OASDI.

Mr. Williams: You stated that you felt CPP would be where the American equivalent program is; that that is where CPP will be in 30 years from now because they are 30 years behind.

Mr. White: As a rough analogy.

Mr. Williams: But I am not clear where the American plan is at the moment. You are suggesting that it's no longer economically feasible to carry on the plan; at least, that's what I read into your comments. I am not familiar with exactly where it is at the moment. Could you elaborate just a little bit?

Mr. White: I should have brought out the point that plans of this kind in all countries are affected by the basic demography in the countries. They have a population bulge arising from the post-war baby boom just as we do. This is affecting their plan as it is affecting ours.

In addition, the caseloads--if you want to call it that; the benefit burden--under all these programs build up with the passage of time. The Canada pension plan is still in the building up stage. OASDI is 30 years further down the road in that building up stage, so that the financial experiences of OASDI and of other programs too--for example in Europe or in Britain--can be of use to us because our program is younger than theirs. We can see what has happened to them and do our best to avoid those difficulties. That is what I am suggesting.

Mr. Riddell: Are you saying there is not enough money in the kitty at this time in the states? One of the things we are looking at, I suppose, is expanding CPP, but I would like to know what has happened in the states. Would it be foolish to expand CPP if it is not going to be economically feasible? In simple words, what is going on in the states at this time?

Mr. Williams: We were told that the CPP would be bankrupt by certain dates if adjustments weren't made in the premium payments. Are you saying that in the program in the states now there are greater liabilities than there are assets?

Mr. White: Speaking in a general way, they are closer to the year in which their fund is going to run out of money than we are. They are talking about interfund borrowing; they are talking about borrowing from general revenues. They are exploring all kinds of avenues, looking for what they should do for the future of their program. I do not mean to sound a note of predicting dire consequences for the US; that is not my intention. My intention is merely to alert us that we can learn by looking at them--they are 30 years ahead of us--and take advantage of the time gap given to us to plan our own program.

Mr. Chairman: I think some of the questions that may be going through the committee members' minds arising out of your observation is that if we have a model in the United States and

other countries to follow, or at least to view, because they have the experience in terms of time; that there are lessons to be learned from that. What are those lessons?

Mr. White: I will be very honest with you, Mr. Chairman. I did not come prepared today to discuss OASDI in detail, but if you would like me to, I could go away and get all these facts and come back again; or I can mail them to you. We could call somebody from Washington.

Mr. Chairman: I am not pressing you on this point. It was just that you led into it and attracted comment.

Mr. Epp: Don't you wish you hadn't?

Mr. White: No, I don't wish I hadn't at all. I got into it because of the comment on the growth of the social assistance rolls. I am a great believer that you have to have longtime perspectives in pension planning, whether it is pension planning at the corporate level or pension planning at the social security government level. You can see the way things are emerging.

For example--coming back to privately sponsored pension plans--going back into the 1930s and 1940s, the large plans were on career average. A few public service plans may have been on final average in those days, but by and large the bulk of the plans were money purchase. But we soon learned, those of us who take part in plans, that money purchase does not do the job for us. It does not give us the replacement ratio we want at age 65, so employers moved to career average plans on into the 1950s.

Then we got into the beginnings of this inflationary period we are in now and there was some dissatisfaction with career average plans. So employers put in final average salary minimums. But the time we got to the 1960s, the final average salary minimum in many cases had become the pension formula because it always exceeded the career average formula. So we dropped the career average and we got into the final average salary plan as we are now.

The point I am making is these things evolve. There was a great deal of trepidation and hesitation on the part of corporate sponsors to move into final average salary plans. After all they were facing large liabilities, potentially, under those pension formulas, but they gradually did move in order to meet the job. The point I am making is there is an evolution in pension planning and I am trying to suggest that this evolution should be allowed to continue; to continue in liberalizing vesting, in preserving the purchasing power of pensions and so on.

Mr. Riddell: It might be of value, Mr. Chairman, if the committee did take a look at the American experience. It seems to me that we are always about 10 years behind them. Maybe we can head off some difficulties at the pass if we take a look at them.

Mr. White:: There is a report to the President of the United States which was published within the past 12 or 18 months. I thought it was tabled here for the committee. I thought I read

in the transcript that you had a copy of it.

Mr. K. H. Smith:: There is a report that was published very recently. I have a copy but unfortunately it is not with me now. I thought I had brought it with me but I didn't. I would be pleased to make that available to the committee.

Mr. Chairman: Thank you very much, we would appreciate that. It could be helpful.

Mr. Peterson: Mr. Castonguay is familiar with the US experience. He might be able to give us some comments on it.

Mr. Chairman: This afternoon he may be able to comment on that more fully for us. Mr. Gillies you had a question.

Mr. Gillies: Yes, thank you, Mr. Chairman. I wonder, just following on this point, are there figures available to us on the future cost projections for the guaranteed income supplement, old age supplement and the guaranteed annual income system? That could be very helpful.

The conclusion I am drawing from your brief, Mr. White, and I am zeroing in on page two, is that the gaps in coverage, to your way of thinking, are not as serious as perhaps we have been told. Certainly the types of companies that you represent, I am not particularly worried about it. You have, as you say here, 80 per cent coverage. Then I am referring back to your Canada at the Pension Crossroads study, which would indicate from a very similar sample that a high percentage of those pensioners also have other sources of income.

11:10 a.m.

I am referring back to that study: dividend income 38.3 per cent, interest 60.3 per cent, rent 4.7, work 10.5, and so on. So, I am not overly concerned about that percentage.

If we accept the figures we have been hearing that across the population 54 per cent or 56 per cent, or whatever it is, are covered, and if 80 per cent are covered in the larger corporations that you cite in your survey, then it brings me back to the conclusion that the people who are not covered are, as we have said, the employees of smaller corporations and businesses, and low income wage earners, part-time, and so on.

I think you have said quite correctly that there is good protection for these people with GIS/OAS/GAINS, but I am concerned about the future of those programs, and I wonder if by saying that we really do not think it is appropriate or possible to include those types of employees in pension plans of one sort or another that we are going to, down the road, put a staggering burden on those public social security schemes.

Had you considered the possibilities of, say, the inclusion of part-time workers in pension schemes; some scheme, whether it be voluntary or mandatory, between small business people and their employees? While I can well appreciate the financial burden that

could present for our smaller businesses, I am wondering if they are not faced with a similar burden anyway, down the road, through increased tax revenues to pay for social security?

Mr. White: I would like to respond to that. I think it is a good question. I would start off by stressing this point. The paragraph dealing with our survey brought out that among those couple of hundred plans surveyed, the snapshot coverage on any day is 80.5 per cent, that means 19.5 per cent of the work force on that day were not actually participating in the plan.

What I want to stress is that the 19 and a half per cent, as they become eligible, as they get a little older, as they finish a year of service, they will pass through the cohorts of being in the plan. Everybody will pass through.

There is the qualification that this gentleman over here mentioned, that those who terminate and move around may get dropped out. That has been one of our weaknesses and one of our shortcomings but, as we stress in our brief, the sponsors are prepared to include the vesting; they are prepared to do things about preservation of value, and I think we can meet those requirements.

Mr. Gillies: So, in fact, of the 205 corporations 100 per cent have a pension scheme?

Mr. White: They all have pension schemes. I wanted to bring that out. Not only do they all have pension plans, but I want to bring out that all the people who stay with them will go through that pension plan and have a pension when they reach age 65, although a snapshot on any day might show 20 per cent not taking part.

The point I am trying to make is so many people when they look at the coverage for pension plans, they are instinctively comparing that with 100. It is more like a comparison with 80 or 85.

On the part-time workers, there is no reason why part-time workers cannot be covered in a pension plan. The part-time workers in my company are covered.

Mr. Peterson: Is there an hours qualification on that?

Mr. White: Yes, I think it is 15 hours a week. The employer sets that according to the nature of his work.

Mr. Gillies: Of course not all employers do.

Mr. White: No, not all employers do it. But I am saying theoretically there is no reason why you cannot do it.

The problem you get with part-time workers, and with people who are earning up to the average industrial wage generally--you mentioned it and we mentioned it in our brief--it seems a little bit redundant to cover these people for a pension plan.

First of all, up to the average industrial wage, since they are contributing out of their own pocket 1.8 per cent to the CPP and their employer is contributing something on their behalf, you integrate your private plan, as you know, with the Canada Pension Plan, and you have to scale down the contributions, and depending on the benefit formula and depending on the past financial history of the plan, and also the design history of the plan, you can find yourself--I am talking as an employer now--in the position where in order to bring those people under the average industrial wage into your pension plan and to do it on a proper basis, fair to them and fair to everybody else, the amount that they are going to get out of the pension plan is not a large unit benefit formula for each year of service and the contribution has to be either nil or appropriately also very small.

I guess I am only trying to say, and perhaps I am not saying it very well, that in pension planning practice--and you can check this with Castonguay this afternoon and with Arnold Shell tomorrow; they know more about it than I do but I think they will bear me out--pension planners, the people who provide this service and employers are finding that in integrating their plans with social security, in this bracket, zero up to AIW, there isn't too much the pension plan can do for these people. That is what I am trying to say. Their social security, their old age security and their CPP narrows the gap as to what the employer has left to fill and narrows the contribution.

Mr. Gillies: I guess what I am getting at is, perhaps through some realignment of the scheme, I want to see some element of choice there. An employee of a small business, who may make \$5 an hour or something, may feel it more important for his personal priorities to have more invested for his retirement than another. That freedom of choice to an extent is there for the higher income employee. It is not for him. I am just wondering if through some thoughts this committee might be able to come up with, through some realignment, whether we can broaden that freedom of choice across the spectrum.

Mr. White: I guess you can broaden it to the extent that the employer can afford to put money in for him. I do not think the individual has any excess capacity for that kind of personal saving. Is that in your mind too?

Mr. Gillies: I appreciate there is a problem here.

Mr. White: There is the point that the small employer has a tough time meeting his payroll each week. Certainly he can make some provision there.

I do not want to mislead the committee. I think I should go back to correct and rephrase something I said earlier. My comments were influenced by our own plan. Most plans like ours arrange so that, working with the Canada Pension Plan, when you retire at 65 the replacement ratio is 70 per cent. Seventy per cent of your average earnings over the last five years of service is the pension you start out with. Since CPP provides 25 per cent--old age security is usually ignored and is ignored in our plan--the pension plan itself provides the remaining 45 per cent. So

measured over the 40 years of service from age 25 to 65, the plan does provide slightly over one per cent per year of service. I think I gave you the impression that it does not provide very much, and that is a significant element.

The point that was in my mind is that above Year's Maximum Pensionable Earnings (YMPE), the plan provides the full two per cent so that you get the 70 per cent pension.

In our case, because of the design history of the plan and the way the thing has developed over the years--and these pension plans are constantly being changed, as I am sure you know--the contributions for our plan are relatively low. Above YMPE, where the benefit is two per cent of your average salary during the last five years of service, the contribution from the employee is three per cent. Below YMPE it is three per cent minus the 1.8 put in by the government, which is 1.2. Actually, we make it one.

Mr. Gillies: It sounds like there are some good features in your plan.

Mr. White: I think it was the contribution side that was in my mind. It is down so low it has almost disappeared.

Mr. Gillies: Your company's plan is one of the 205 cited here?

Mr. White: Yes.

Mr. Gillies: You may not have researched this, but do you know how many of the 205 do include their part-time employees? Do you have any idea?

Mr. K. H. Smith: That was not a question in the questionnaire.

11:20 a.m.

Mr. Epp: I (inaudible) think, Mr. Chairman, one of the recommendations the Haley report had was recommendation 93, which directed its attention to the representation of employees on the plans. Now, I know that obviously you couldn't address all these things in your report, but some of the employers have felt that they couldn't accommodate representatives of the employees on all the plans. Do you have any problem with that, or do the employees in all your pension plans have some say as to investment and other things? What happens with those funds?

Mr. Hewitt: I would respond to that one in this way, Mr. Epp: I believe the Pension Benefits Act of Ontario now requires there to be at least one outside trustee on each plan. That being the case, there is already some independent participation, if you will, by a professional or a community representative to add integrity to the whole process.

I would also go so far as to say in the case of my plan--this is the Imperial Oil Limited plan, to be specific for a moment--that the trustees of this plan take their duties very,

very seriously. They consider themselves fiduciaries; they are very concerned about potential conflicts of interest, and they do their utmost to maintain their fiduciary duties, to carry out these duties or responsibilities to the plan. Worker participation sounds somewhat liberal in the context of the way you raise it as a question, but certainly it is one of the items for the committee to deliberate upon.

Mr. Epp: Because it has been a point that has been raised with the committee on a number of occasions and the committee has discussed it, I was just wondering how you people dealt with that particular problem in your area of work and how you reacted to it.

Mr. Hewitt: How would one elect the participant? What process would be employed to elect the participant or trustee?

Mr. Epp: I suppose, depending on the problems in that particular industry. At Imperial Oil you say you have (inaudible) employees on there. Is that--

Mr. Hewitt: No. I am saying that our plan, as an Ontario registered plan, is required to have one outside trustee as a member of its trustees. That outside trustee is de facto a representative of all constituencies now. The constituencies are those of the sponsor--that's the company; the employees--that is, the active employees; and the retirees, who make up the third constituency. I see little need for the implementation of recommendation 93.

Mr. Epp: But the person that you have--and we of course are not questioning his integrity and his qualifications and so forth--by whom is he appointed? Is that in consultation with the pensionable people and with the employees and so forth?

Mr. Hewitt: I believe that person is appointed by the trustees--in other words, by the corporate body trustees. They, from among their lot, appoint additional members.

Mr. Chairman: Do you see any objection to an employee representative?

Mr. Hewitt: So long as the person is qualified--that is, so long as he has an awareness of conflicts and has an awareness of the responsibilities with which he is charged: that is, the investment of the funds in a responsible and productive fashion--I have no objection; so long as the person brings expertise to the committees (inaudible) process.

Mr. Epp: On another point: One of the considerations that this committee is going to have has to do with the provincial universal retirement system and whether it's going to be voluntary or mandatory, whether we should make it another segment of the Canada pension plan and maybe have phase two as opposed to phase one, something of that nature. You must have given this a lot of thought. Do you really prefer the PURS proposal with respect to having an alternative proposal?

Mr. Hewitt: Perhaps I can answer that one this way. It will be a long answer, Mr. Chairman, but I think it's timely to read into it.

Focusing first of all on the question of the PURS proposal, my comments are directed to the entire royal commission report. You focused on one of the two controversial areas in the report as perceived by the media and professional commentators: PURS is one, and the second is the inflation tax credit. I think it's fair to say it's a good report; it's a balanced, broad and responsible report.

As to PURS per se let me add some fundamental perceptions to pension reform, a subject which I think challenges one's fundamental perceptions of humanity and commerce. It (inaudible) one's perceptions as to whether or not we need more or less government, whether or not we get what we pay for now by way of government services, transfer payments and other social assistance schemes. It challenges one's fundamental perception of timeliness in the delivery of these systems. Mr. White this morning has indicated to you that the private pension system as it is now developing in Canada is healthy; it's a maturing system. I think it's fair to characterize it as one that is not yet mature. It's one that has developed very rapidly, as Mr. Bentley knows, since the 1950s, and it continues to develop.

The need for PURS also bumps up against one's perceptions of three variables--savings, investment and consumption--and the relative contribution of each to a productive and healthy society. I would also go back to tie it into the regulatory environment in this province, and point out that the Pension Commission of Ontario has had a leading-edge position for a number of years. It has also been a substantial contributor to the Canadian association of supervisory pension authority, as I think they call it. As well, the large employers recognize the problem of the small employers and the employees of the small employers. We come to ask ourselves, "Do these people need help? Do they want help?"

It was Mrs. Haley's perception, or at least the perception of the royal commission, that these people do need help. She pointed out that, by and large, the pension and savings process is the responsibility of the individual, but she and the commissioners felt that something a little extra was needed in addition to self-help. They suggested a mandatory PURS scheme. That point of view is not shared by everyone. It is not the consensus of the members of the Financial Executives Institute.

If you will allow me, Mr. Chairman, I will go on and add some additional comments that I think you should deliberate upon in your proceedings. One thing that is very close to my heart as a participant and as an executive of a large sponsor of a plan is uniform legislation across Canada. I need not say much about Bill 214 and the guarantee fund. I need not say much about the recent amendments to the Saskatchewan act or possibly the forthcoming legislation in Quebec, let alone the provinces which do not have legislation and which may be bringing forth such legislation in the near future.

If I could take the committee members back to general and political perceptions, broadly touch on reform areas and simply summarize them or list them, these broad reform areas, often commented upon, range from vesting--Mr. White has indicated that there is a willingness to move on that front--portability--

Mr. Peterson: Legislated?

Mr. Hewitt: I think you'll find that most plan participants in Ontario now already have plans that surpass the minimum requirements.

11:30 a.m.

Mr. Peterson: As I read your brief, you do not want any new legislation of any type. You are just happy with the way things are. You think that a lot of the problems, which you admit, will work themselves out. Am I right?

Mr. Hewitt: No, I am not saying that at all. I am simply saying that in your deliberations you must consider some broader issues. At the outset, I committed myself to a point when I suggested pension reform is a broad subject. That in itself brings most of us to the table with a belief or dedication to do something about perceived problems.

What I am trying to do is to say that when one considers perceived problems one must take a broadly based perspective. This broadly based perspective ranges from vesting to portability to the coverage issue that Mr. White spoke about, to the purchasing power protection that Mr. White addressed, through to women and pensions, which we have not touched on and which is going to receive a great deal of attention at the national pensions conference. On retirement age, I believe the mandatory retirement age consideration should be reviewed.

Additionally, there has been a considerable amount of comment on the consistency of actuarial assumptions. I believe Mr. Bentley has provided adequate comment on the artistic nature of making or formulating perceptions of long-range funding requirements. It is a very difficult field to legislate or regulate in a very black and white sense, Mr. Peterson. In that context we are saying if one does legislate, one should do so with considerable deliberation.

I would also like you to consider, particularly when one considers the quick fix solution, if you will, the mandate versus the renovate. I think you have to say, if you caption us as a group, we are renovators. We are renovators as opposed to mandators. In other words, we do not think the quick fix, escalate the Canada pension plan, is the solution. People prefer freedom of choice in their savings patterns. It is for that reason we could not bring ourselves to mandating or aligning with a mandatory scheme.

Mr. Riddell: What the pension plan says, in effect, in the private sector is that it is not mandatory that an employee of a company participate in a pension plan. They have the choice, do they?

Mr. Hewitt: That is right.

Mr. Riddell: If I was to work for your company and you proceeded to tell me all the benefits that were available with your company, I could say, "No, I think I can invest my own money. I do not want to participate in the pension plan."

Mr. Hewitt: That is a difficult one to answer. My personal perception is that we should urge all employers to have plans. Those employers who have plans should urge all employees to participate because there is a responsibility.

Mr. Chairman: I think the point that is being made, Mr. Hewitt, is that all mandating does not have to be at a government level.

Mr. Hewitt: I think I would also like to quickly point out that one should be aware of Canada's tiered system of saving for retirement. The tiered system basically starts with the old age security system, which is added to by the Canada pension plan or Quebec pension plan, the guaranteed income supplement and the guaranteed annual income supplement. One should be aware of the replacement ratio--the poverty line, if you will--and the adequate level of retirement income.

Mr. Epp: Let me just--

Mr. Chairman: We have quite a list, Mr. Cousens, Mr. Brandt, Mr. Mackenzie, Mr. Peterson and then Mr. Williams. I think the fewer the interruptions the better if we are going to finish this morning.

Mr. Hewitt: Possibly I could summarize by bringing us back to a landing and then we can continue.

Mr. Chairman: That is almost a larger gathering than the parade probably that is lining up outside.

Mr. Hewitt: These are broadly based perceptions that I think have considerable validity. We are speaking now as a consensus. The points I would like to register are really some points of consensus raised by Ken Smith of FEI Canada and your speaker during preparations for the national pension conference. They represent a broadly based constituency and we would like to point out that we reviewed a number of business sector briefs in coming forth with the basic consensus.

The point would be that although business is commonly assessed as being heterogeneous, there is a consensus view on a number of pension issues. They include the following: A strong and productive economy is the only guarantee of a healthy income system. Register that as a point.

Secondly, individual options should be available and a rigid system avoided. Thirdly, the total cost to retirement related benefits, including government programs, must be considered in designing changes for our system, that is, costs are an important ingredient in the overall consideration of your committee.

Proposed changes should recognize the concerns of small business. The small business constituency in this province, indeed in Canada, is a large constituency. Not only is it one of affordability, it is one of administrative technology.

Employer plans continue to be improved but the results do not accrue overnight. Canada's pension system is continuing to mature. Expansion of the CPP, although a simple and politically attractive concept, is less productive than the extension of employer plans. It represents a short-circuiting of funds flowed through the economy. No retroactive improvements should be legislated, assuming legislation is to be brought forth. Reforms to income programs for the elderly poor should be targeted to those most in need. Here I am speaking particularly of the elderly poor, the constituency so often addressed by the Hon. Monique Bégin.

Reforms to income programs for the elderly poor are certainly in the minds of those with the Ministry of Health and Welfare and were most evident during the national pension conference. Improved reporting to participants of all plans should be encouraged.

On this point, Mr. Epp, I would suggest to you a better productive gain would be for most plan sponsors to improve the reporting package to plan participants. I think that would go a long way to allay many of the concerns addressed with your question as to whether or not they should be directly representative as a member of the trustees. It is information they are looking for.

Mr. Peterson: Our problem is that although I am sure we all agree with disclosure, large companies had to be dragged into that with Bill 214. To me it is so self-evident that it should have happened 10 years ago or 15 years ago when this thing started but it didn't and it has forced legislation. You understand how you are inviting this stuff. I don't mean you or I don't mean Imperial Oil, I mean companies that didn't do things that were cheap and self-evident a long time ago.

Mr. Epp: Mr. Peterson, you say they are self-evident and yet people aren't doing much.

Mr. Peterson: In the whole great pension debate, you start with disclosure of information.

Mr. White: Mr. Chairman, if I could respond to Mr. Peterson, I don't think in our submission we advocated or recommended legislation, but nevertheless I think we were definitely conscious when we wrote the submission that since we were reflecting to you what we think are the most up-to-date views coming out of the national pensions conference, you could rely on what we say. It would give you a pretty good reading on how whatever you are thinking of doing might sit out in the outer world.

Mr. Peterson: I was there and we have read copies of the summaries too.

Mr. Chairman: I know it is a bit of an indictment in terms of the private industry, but it has to be pushed rather than showing more leadership in this area. I think we have gone through that. I want to go through the list of members.

Mr. Epp: I have one more question.

Mr. Chairman: Yes, you are indeed. But you have a habit of asking questions that beg a very lengthy response.

Interjection: It is a very complicated subject.

Mr. Epp: This has to do with the investment of the huge amounts that are now available and that will be available when another plan is adopted and with respect to Canadian investment as opposed to foreign investment. What would your attitude be to legislating that maybe 20 per cent of this could be invested abroad? Do you think all the money that is collected in pension funds should be limited to investment in Canada? I would not ask you a very simple question.

11:40 a.m.

Mr. Hewitt: The chairman gave a very good prologue to your question. Let me quickly get a handle on it by suggesting to you that the perception of curtailing the flows of capital is one I have grappled with in a number of forums before.

Capital, by and large, knows few barriers other than pursuit of higher and better returns. The regulation of pension investments as now constituted is handled federally through the Income Tax Act. I believe there is a 10 per cent limit on pension funds--that is, a 10 per cent limit in assets at book value--invested outside of Canada. Therefore, I am reticent to focus your attention on this area because it is a federal consideration.

It is my personal view that the 10 per cent limit is restrictive. Whether or not there should be a limit, I again go back to the fact that this is one of the challenges of one's fundamental perceptions of capital and whether or not it should be directed and how it should be directed. I do not believe this committee can deal adequately with that national consideration. I would be very reticent to see any regulations developed by the province of Ontario that differ from those of other provinces. It appears it is a consideration that deserves a uniform approach.

Mr. Epp: As you know, some of the funds now invest both in Canada and abroad. It is one of the things that we are going to have to look over carefully when making our recommendations. Thank you very much.

Mr. Cousens: Mr. Chairman, I am very interested in the off-the-cuff remarks that started coming from Mr. Hewitt that were not even a part of the presentation. I am glad we have Hansard so I can go through them in more detail.

I would like to follow up on something that Mr. White was talking about. That is portability. It is an important subject. I

would not mind if you could elaborate on some of the features that are prominent within the life insurance industry on that and just how these benefits could be implemented, if at all possible, in other schemes and in other parts of the free enterprise system.

Mr. Peterson: With great respect, if you heard Mr. Wells testimony on the subject I think you would have learned everything there probably is to know about that subject.

Mr. Cousens: But we now have a person from a large insurance company who has referred to it in his report.

Mr. Chairman: I do not think we would restrict your right to ask the question, Mr. Cousens. I am sure the witnesses are competent to respond.

Interjections.

Mr. Epp: It is just the way you call it.

Mr. Brandt: That is Bill 7, if you want to look it up.

Mr. White: Mr. Chairman, I would like to lead off by saying that I personally do not believe that portability is a counsel of perfection, as the royal commission report says, nor does the life insurance industry.

The arrangements for portability are by no means complete within the industry itself. I do not want to mislead the committee. It is one of the aspects of the private sector that it is not monolithic. Even within one industry in the private sector it is not monolithic. I cannot claim that all the life insurance companies in Canada, as of today, have this arrangement in effect. Many of the leading companies, including my own, do. We are persuading the others to move as soon as they can to put this arrangement into effect.

Our plan is to then approach our group pension customers and endeavour to persuade some of them to put it into effect and hopefully to spread the gospel in that way. As a matter of fact, if I could just recap a bit on the differences in view within the private sector, a couple of us are going up to Imperial Oil shortly and are going to talk to my friend here and some of his executives to persuade them that pension portability is feasible and you can take it with you.

This is the kit I spoke of earlier. We have a supply of them here. I would be more than happy to leave them with you for the members of the committee.

Basically, the idea is that when someone who has fulfilled the qualifications for a vested benefit terminates service, instead of leaving that vested benefit in his former employer's plan, if there is a portability provision he can take the value with him. You may say, "What value?" You can get into technicalities in determining the value. My suggestion to chief executive officers and vice-presidents of human resources and people of this kind who are interested in this program and to yourselves is by and large to leave the technicalities of determining the values to the actuaries for the plans.

There is a safeguard in this arrangement in that the actuary has to come up with a reasonable formula for determining the transfer value, but the safeguard is that the same formula has to be used for departing employees in determining what value they take with them. You have to use the same factors, the same parameters and the same formula in accepting the transfer value for an employee joining you in determining how much service you are going to give him under your plan. As long as an employer agrees to do that, then you can be confident you have a sound system. He is not loading it in favour of either departure or arrival.

Mr. Peterson: You do not feel that the commission has to be the arbiter of these disputes if and when they arise?

Mr. White: I don't think so but I would have to admit it is early days and maybe I have not thought out all the eventualities that might arise. If controversies did arise, I would certainly not be against someone having the responsibility for working them out. My own feeling is that as far as we have gone at the present time, this is a very workable arrangement and need not give rise to controversy.

Mr. Chairman: Mr. Peterson, you have just anticipated Mr. Cousens' second question.

Mr. Cousens: I was just surprised that Mr. Peterson had anything to ask on something that was so fully covered in his own mind. I was just aghast.

Mr. Chairman: Maybe that wasn't your second question. Do you have a second question, Mr. Cousens?

Mr. Cousens: It is in the process of being answered I think. The other part of it is just how it can be applied and you are alluding to that.

Mr. White: Yes. I am sure you all know that pension plans in the public service--for example, the public services of this province, the federal government in Ottawa, crown agencies and crown corporations--and among hospitals, universities and various academic institutions have had portability for a long time, some of them for decades. That portability is arranged in each case by a bilateral treaty or contract between the two plans involved. So you have a host of these bilateral agreements in operation.

The life insurance industry plan is intended to avoid the need for the bilateral agreements and it is intended to allow each employer to make his own decision about portability for his plan and set it up working with his actuary on a sound basis for his plan. Then he is ready to do business in the portability field with any other plan that has a like portability provision. Or, as I said earlier, in some cases a departing employee could take his transfer value and put it into a locked-in RRSP, assuming he can get it from Ottawa, because it has to stay there until age 65. That would be necessary because you will have people temporarily or permanently passing out of the labour force, for example.

Mr. Brandt: Supplementary on that particular point for a moment if I can, in the interest of uniformity, do you not think there is perhaps some justification for legislative initiatives in that direction? How could you possibly get this huge industry to have a uniform in and out portability concept that everyone would agree to when you have such a widely diverse series of opinions both in the industrial sector and with the companies that are in your field. Do you not feel that some kind of an umbrella legislative initiative might assist in some direction?

11:50 a.m.

Mr. White: In response to that question, the province of New Brunswick, I think I am correct in saying, is about to introduce pension benefits standard legislation. It is under consideration now. I do not think it is any secret that the life insurance industry has been to Fredericton, has presented this and is endeavouring to persuade them to include it in the legislation.

Mr. Chairman: So you see the role of mandating in terms of portability.

Mr. White: Yes.

Mr. Williams: Just a further supplementary as a way of clarification. You had said that provided the same actuarial figures, formula and parameters were used coming in as going out, you could come up with a very viable portability feature in any private plan that was set up. But then you added the rider, "and provided there were similar portability plans elsewhere." I presume you meant with the employer that the employee would be going to when leaving that company. How are you to be assured that that other employer, the third party, in fact has a comparable portability plan feature built into its pension plan or if he even has one? Isn't that the weakness of the logic of your argument?

Mr. White: In the case of someone leaving and going to employer X, say, if he wants to take a transfer value under the portability arrangement, then he has to ask, or we have to ask, the new employer, "Do you have arrangements in your plan to accept transfer value?" If they say, "Yes, we do", that is all we need to know. We arrange the transfer value and move it over. The application of it in the new plan is between the incoming employee because, after all, it is his transfer value, and his new employer as to just how it is to be applied.

Mr. Peterson: You would have no problem if we suggested that we mandate that every plan must have an in and out provision?

Mr. White: That is right.

Mr. Peterson: The only problem is the valuation, and we have agreed that there is a simple way to handle that. It is either that or arbitrate it. In one line of legislation you could clean up that problem and you would have no problem.

Mr. Brandt: Are you prepared to make a specific recommendation with respect to the wording on the portability question much as you did with the province of New Brunswick? Could we have that from you?

Mr. White: My president is probably going to chew my ear off. I am getting into deep water, because I am here as a delegate for Financial Executives Institute Canada, but I am talking about the CLIA's arrangement. They will be appearing before you next week, I think, and I am sure will be more than happy to go into all of this.

That is a personal response and from the life industry point of view, I would just like to say, to introduce a little dichotomy, that I was not necessarily speaking for FEIC.

Mr. Chairman: I understand what you are saying now. It is often necessary to have a great deal of potential for flexibility. Certainly as the chairman of a committee I appreciate that point.

Mr. Brandt: I want to go right into that. At the time of mandating, what you are saying is that we can blame you when the entire industry is in an upheaval over that question.

Mr. White: I am close to retirement.

Mr. Gillies: You may get even closer.

Mr. Brandt: And therefore totally sheltered from any attack.

The question that I wanted to pursue was the comment that you made with respect to the CPP being in "reasonably healthy shape." With regard to the problems that we have that are addressed on the board there, in connection with the present participation factors of 3.6 per cent in the years 1986, 1981, and the concerns that we have in connection with the underfunded portion and the problems that we are going to face in that regard, I would like some response from you as to how you think that should be handled as it relates directly to the CPP. I start off that line of questioning primarily because you indicated the plan was reasonably healthy.

The second part, however, that I wanted to talk about was the Canadian Labour Congress presentation yesterday, and I am sure you are familiar with their position, which is for a doubling of the benefits under the plan. Taking into account their comments relating to where they think we should be heading as a committee some of the guesstimates range from using their figures from a 15 to 17 per cent contribution rate requirement in order to double the benefits of the plan to perhaps 18 per cent from some other reasonably knowledgeable sources.

They do not seem to be concerned about the extraction of that amount of money from the total economy. I pursued this question in committee yesterday and it did not seem to concern them that we were going to look at a four or five times factor in terms of the amount of contribution that would have to be made by employers and employees relating to the CPP.

I wonder if, from your vantage point, you could give us some indication of what you think the impact would be on the economy. We all know some of them, but what would your response be if we moved in that direction, which is simply a doubling of the CPP? There are some members of this committee who are somewhat sympathetic to doing the same thing, as much as that might shock you.

Mr. Peterson: Somewhat.

Mr. Brandt: Most of them are on the other side of the room. We really have to look at that question in its fullest context so that we understand from someone who is as close to the economic situation as you are, as close to the private sector as you are, what you feel the implications might be.

Mr. Hewitt: Rather than call this an attack on any one position, I would like to take it back to the fundamentals and suggest to you that this, as a tactic or approach, deserves considerable deliberation.

At the outset I might suggest that some of those who advocate this position are less than honest in their basic analysis and comparison with the European approach where, if you will, considerably higher levels of compensation are dedicated towards retirement savings. Before one takes the Swedish or the Netherlands or other models and suggests that this is evidence of Canadian willingness to save in this form, one should look more broadly at some of the other infrastructure of their social assistance plans. Additionally, one should look at the US situation and grapple with a couple of things.

One, Canada is different. Canada is a growing nation. In terms of macroeconomic maturity, Canada is different from Europe. One should therefore be very careful in terms of funds flows analysis, if you will, tampering with the flows and intermediation of funds throughout the economy.

Mr. Peterson: Can I add a supplementary on that? Let's assume for a minute we are going for some new system, be it PURS or whatever. I am comparing this to the PURS system. I hope you don't mind, Andy. They made this point yesterday--and correct me if I am wrong--that if you doubled the benefits and went to a complete pay-as-you-go program, in terms of present cost analysis, it would be less of a tax load on business, employers and employees than would, say, a mandated system like PURS. Am I right?

Mr. Brandt: I think that is essentially (inaudible).

Mr. Peterson: In other words, their point was that business should like this because actually when you put it out over a 50-year period, 17 per cent 50 years from now is not all that significant as opposed to the upfront costs now of the PURS system, which would be a much higher load on business as well as employees. If you do a present cost analysis--or whatever people do to figure out the overall cost and the distribution of that--they said it would actually be more attractive to business and a more intelligent way to finance that kind of security. Have you ever heard that argument? What's your opinion of it?

Mr. Hewitt: I have heard the argument but I haven't seen any evidence to substantiate the argument. Frankly it sounds like a postulation or a belief without foundation. I am prepared to examine the evidence provided with the I would like to add a couple of other comments to the perceptions.

12 noon

An hon. member: You have a problem, there is no evidence.

Mr. Hewitt: One should base--

Mr. Peterson: I would like to examine that proposition because I think it is kind of germane.

Mr. Hewitt: May I respectfully submit that one should rely on empirical evidence first before one postulates positions.

I have a couple of other comments. A quick-fix solution does involve a very substantial intergenerational transfer. You might add, "What is wrong with an intergenerational transfer?"

I suppose when we confronted this issue, or at least when I discussed this approach with a number of people at the National Pension Conference, one of my responses--and it is somewhat of a political response but I think it was an appropriate response--was "Does it get your kid a job today?" We are passing today's retirement burden on to tomorrow's kids who may or may not have jobs. It tests, if you will, your perception of savings, investment and consumption. This is the postulation I started out with and one of the basic challenges in any reform or perception of required change.

I would also like to point out to you that political priorities change over time. In this context, one should be very careful in terms of enhancing the profile of the Canada pension plan. If one does double the benefit, one necessarily increases the funding provisions, if it is partially pay as you go. You may prefer to make it entirely pay as you go, in which case there are fairly substantial intergenerational transfers depending upon the demography associated with the plan. But the control over the funds is a significant concern. It is a concern that, once again, raises national priorities in terms of how much capital is required for searching and developing new energy--

Mr. Peterson: You are going to fully fund the--

Mr. Hewitt: --and in terms of developing transportation infrastructure. Does one rely on the private system of intermediating capital where the highest and best use dictates its employment or does one go deeper into "a mixed economy" and a typifying of Canada, if you will, to some extent in macroeconomic terms or terms often referred to by economists as a mixed environment--an environment of partially free market and partially tampered with by interventionists.

Mr. Peterson: Are you arguing for fully-funded CPP? That is the logical extension of what you are saying.

Mr. Hewitt: No, I have not said that at all, Mr. Peterson. What I am suggesting is that if one does enhance the profile of CPP considerably, one of the considerations to be borne in mind is whether or not it is pay as you go or partially funded and what does happen to the capital.

Mr. Chairman: If I might interject, it struck me as a device through the CPP and a fresh mechanism for the redistribution of income. I won't develop that further but I did get that philosophy implicit in the proposed reform, inverted calendars of the Canada pension plan because of the method in which the payments would be made and the contribution rates which would be geared to the income and to exemptions and so on at the lower levels to take care of some of the problems of extracting income from people who are in most need of income now. Anyway, I won't pursue that any further, but I just wanted to make that observation. Perhaps Mr. White would have a supplementary.

Mr. Brandt: I want to pursue one point in connection with the private sector investing and perhaps the rather substantial shift of capital that would be an increase in the total pool of money available for the CPP that would result from a shifting as suggested by the Canadian Labour Congress.

The argument has been presented that although up until this point that pool of funding has been available through an arrangement between the provincial and the federal governments to the provincial government that in effect the mechanism could be developed which would not be dissimilar to that which is incorporated in the Saskatchewan legislation where money could flow back into the private market at a percentage of the total pool or whatever the case might be. Did you want to respond to that, because that is one of the arguments that is being used perhaps to counter what you just said about where those funds would be used, either in the private or in the public sector?

Mr. Hewitt: Mr. Chairman, I thought I did allude to that, possibly in a tongue-in-cheek way, when I suggested that political priorities do change over time. What is at stake here is who does have the investment authority, if you will, or the power of attorney over these funds. I suggest to you that the free-market mechanism which moves the capital to higher and better uses is perhaps a better mechanism than a large pool of capital that is, say, at the discretion of an investment committee composed of members of cabinet, as it is in one province, (inaudible). That kind of investment activity is bound to be, or is, vulnerable to political priorities, pressures and perceptions.

Mr. Brandt: I'd say that's probably right.

Mr. Hewitt: Okay. And one therefore must be very careful if one postulates that as an approach.

Again I come back to one's fundamental perceptions of humanity, commerce and, if you will, the data upon which one's postulations are made; and secondly, whether or not you think one's perceived mechanisms are operable (inaudible) over the long run. That's one in which I personally have some suspicion.

Mr. White: Mr. Chairman, if I could add a couple of comments on your first question about expanding the Canada pension plan. I found all the volumes of the royal commission report fascinating, but I found an awful lot in volume VIII, particularly that Southam survey.

You may recall that when they asked people about their attitudes towards the methods of funding under the CPP--"Do people in Ontario prefer the continuation of intergenerational transfers or would they prefer that their generation, and each generation in a general way, fund their own pensions?"--55 per cent of the people who answered that question favoured each generation funding its own; they did not favour intergenerational transfers. Three quarters of those people were prepared to face increased contributions in order to achieve that. I think that ties right in with the work of the royal commission and their recommendation of the PURS approach, which has that thrust to it.

I don't see the point that was brought up over here a minute ago, presumably from the Canadian Labour Congress, about the position of the employers, because it seems to me, if I read the PURS correctly, that if you put that into effect the employers' position is going to be a two per cent contribution for PURS up to YMPE plus what he has to put into the present CPP, which is currently 1.8 and will ultimately increase to something in the neighbourhood of nine per cent. So ultimately it will be something in the neighbourhood of 11 per cent. If you double the CPP you will ultimately be looking at something in the neighbourhood of 18 per cent.

Mr. Peterson: (inaudible) it is going to gradually escalate. It will be less now and more later.

Mr. White: But it's not going to be as high as it would be under the CPP. That's the point I am making. I think it's important in this province particularly to keep these facts in mind, because Ontario and this metropolitan area are the home of a great deal of international business. Your employers have to compete not only in Ontario and not only in Canada but internationally as well, and therefore their costs, whether those costs are associated with plans they sponsor themselves or whether they are mandated by some level of government, will have some impact on their ability to compete and provide jobs.

With regard to doubling the CPP we talked about the 3.6 per cent going up to nine per cent on a pay-as-you-go basis, or if you double it, up to 18 per cent. I am sure you will appreciate that, if it were to be doubled, a major impact, because all the privately sponsored plans would have to be adjusted, would be a switch from a funding basis, which is presently going on in the privately sponsored plans--the assets are being built up to provide those pensions, and in the meantime those assets are providing jobs--to the intergenerational transfer basis; you would switch over to a pay-as-you-go basis and you wouldn't have the same buildup of assets or the same ability to provide jobs, which is the point, I think, that Bill was touching on. Thank you, Mr. Chairman.

Mr. Brandt: Have you done any studies with respect to the impact that this kind of increase in the CPP contribution rate would have on consumer spending, for example? You are really extracting certain dollars today and setting them aside for some future generation to spend on their retirement years. Does that cause you any concern in terms of economic impact?

Mr. Hewitt: FEI Canada per se hasn't done any studies in this area, but I could suggest some references that may be of assistance in this area. I know that Professor William R. Waters of the University of Toronto and Sir James V. Poapst have done a great deal of analysis, I think, of the MacDonald survey associated with the Porter royal commission on finance and banking. This was a survey carried out in the early 1960s. They analysed, if you will, the savings propensities of individuals and the capital formation of households, ranging from the need to purchase primary shelter, transportation, entertainment à la TV sets, and so on right up to, in the age 40 plus, beginning to save, to liquidate debt and so on. They have some perceptions that may be of some interest to the commission.

Possibly the work carried out by Mr. Pesando and Mr. Rae at the University of Toronto Institute for Policy Analysis may also have some insights. FEI per se doesn't do macroeconomic research.

I might also refer you to Jim Ninninger at the Conference Board of Canada, which also does some analysis of savings patterns.

Mr. White: As a footnote, Mr. Chairman, there is a lot of concern in the United States right now, particularly in the realms of academia and in the general area of people in business, like economists, who are intellectually interested in the kind of question you raised, about the negative impacts on personal savings in the US from OASDI, the counterpart of the Canada pension plan.

The United States, as we all know, is a capitalist country. It was built and made great by that mechanism. That mechanism is now apparently tending to run down to some extent, at least in the personal savings area, and some people feel that some of the responsibility--not all of it, but some of it--can be traced to OASDI. I can find papers for you on that subject if you would like to have them.

Mr. Brandt: I think it's an important question, really, in addressing the whole area of pension reform and the possibility of looking at some enhancement of the CPP.

Mr. McClellan: What Canada needs is a Ronald Reagan (inaudible) social security here the way he is doing it in the states.

Mr. Brandt: That might be a good possibility. There might be some value in doing just that.

Mr. McClellan: I think you should take that up.

Mr. Hewitt: The point I was about to make, Mr. Chairman,

is that there is a very interesting experiment going on now in the United States. It's really the economic package of the Ronald Reagan advocates--Kemp, Roth, Gilder and associates--an experiment and perceptions, if you will, of philosophies of savings and investment. Perhaps as a primer some of these fundamental principles should be read by your committee. It is a very different philosophy from that which I as an observer see being practised here in Canada at present. Perhaps a spokesperson from one of the local universities could provide a primer on supply side economics and its implications. I'm not an advocate of the position, but I simply point out to you that it's an interesting philosophy which appears to be very different from that being advocated today.

Mr. Gillies: Some of us don't quite care as much about building up arms as we do about the security of our seniors, but I guess there are all shades of philosophy, Mr. Chairman.

Interjections.

Mr. Hewitt: My comments are directed entirely toward the revenue side of the equation. Let's leave apart from it the expense side of the equation. The expense side of the equation I make no excuses for; I simply suggest to you that there is an interesting philosophy of taxation and savings. It's an experiment--and I think I'm being very objective when I call it that--which is being practised, a real, live experiment, and one of the largest ever attempted in the history of the macroeconomic theory.

Interjections.

Mr. Chairman: Mr. Mackenzie was next on the list.

Mr. Mackenzie: I just have one very minor point to make on the beginning of your comments that there was--I forget the word you used--a growing acceptance of the fact that pension payments or pension plans were deferred income. We had a pretty definite statement from the Canadian Manufacturers Association yesterday that it was deferred income. Is there still any doubt, or any viable position out there that it is not deferred income?

Mr. White: I think, to be very honest, you would almost need the wisdom of Solomon to answer that question. It is one of the facets of what is going on in the private sector that is very difficult to pin down. One's feeling about what is really happening varies almost from week to week or day to day. Certainly, when I came out of the National Pension Conference at the beginning of April I was left with a very strong impression that the acceptance of this was becoming quite widespread. That is about as far as I can go.

Mr. Mackenzie: That is what I certainly got out of the CMA yesterday, somewhat to my surprise, although I was pleased to hear that. But I did not get that from your earlier remarks. I gather there are still some reservations about it.

Mr. White: I think we say in our brief that there is wide acceptance.

Mr. Mackenzie: That is all I wanted to know.

Mr. Chairman: That certainly coincides with the general perception as manifested in our budget address by the Treasurer. That leads us to Mr. Peterson, who is last on the list and who was cunning enough to ask his questions as supplementaries earlier.

Mr. Peterson: You are getting smart, Mr. Chairman. On the intergenerational transfer question, I personally have a very serious problem with the morality of that. Which position are you viewing to address that? Do you have a position on it?

Mr. K. H. Smith: You have had your view on this particular one. I will try to take a little poke at it.

Let us look at the history a little bit. Back quite a number of years we used to have a three generation family. Not so long ago we had a two generation family. At present we generally have a one generation family. What I am talking about is that 75 years ago family units consisted of three generations; the younger people looking after the older people. As our industrial development took place we found that the three generation family unit became two, and then it was one and, in some cases, less than one where we were having separate households.

The responsibility that the family felt to all other members, particularly those members who were unable to provide for themselves, became more and more limited. Concurrently with that, there has been developed various schemes to provide for the needs of the members of the family who are becoming, as we progress, the one and smaller family unit. This has been the impetus for the development of formal pension plans and for the funding requirements.

The thing I would like to get across is that to a great degree the large family unit has given way to the small unit where we are isolating people from the assistance and help of the extended family so that we need to provide, or the individual needs to provide for the years in which he is unable to earn a living for himself. It seems to me that it is going to be difficult for us to reverse that trend. Consequently we must continue with this aspect.

12:20 p.m.

When we had a three-generation family unit we had an intergenerational transfer effectively, because the earnings of the younger people paid for the needs of the older people. Progressively, as we go into the area of looking at the individual providing for his own retirement requirements, we come to the question whether or not that should be paid for by him or by his children or his children's children. In other words, is an intergenerational transfer reasonable, appropriate and equitable? I guess that is a question you are really raising, isn't it?

Mr. Peterson: That's right; yes or no?

Mr. K. H. Smith: That focuses, I think, the question

very clearly. I think you have come out here in the discussion this morning that generally we favour an individual providing for his own because that will provide the capital which employed correctly will generate the income which will provide for the needs of the individual retiree. So we do go ahead, I think, on the basis that we generally would support, at least I personally would support the proposition that the individual is basically responsible for his own retirement needs.

While I am mentioning this, I might say that the formal pension is not necessarily the only way in which he can look after his retirement requirements. A lot of people may have a little corner store, in which they can work until they are 89 or 92. They may have all sorts of different ways of providing for their retirement other than a formal scheme. But, basically, to me the individual has the responsibility. He can be assisted by employers, he can be assisted by government for this particular need, but basically that is my own position. I cannot say it is an FEIC position, but it is certainly mine.

That would suggest that I would not like to see intergenerational transfers. But when you apply this to a very large fund that would be generated to provide these formal pension benefits, I find it would be appropriate if this were held in a very widely distributed private sector, that we do not have one organization controlling all that vast amount of capital.

Where I find a problem is when we move into a social security type of program where the government has seen fit to provide a floor to the CPP, OAS and GIS. There I find that I have to modify my stand, because I think we are developing such a huge amount of funds which can be used in a political sense, which is not necessarily the best sense for the recipients of those particular investment earnings. So that while I support fully the non-intergenerational transfer in respect of that portion of the pension retirement system which is generated through the individual's own planning and through the employment scheme through a private employer, I feel that there is too much of a risk to have huge funds on that type of basis for those schemes that are basically sponsored or controlled by governments. Am I answering your question?

Mr. Peterson: You obviously do not like the \$19 billion being invested principally in government securities. What is your position on paying back that money? Do you think Ontario should have to cough up the \$10 billion, \$12 billion, \$15 billion we will owe CPP by 1991?

Mr. Hewitt: Mr. Peterson, I believe that is a subject for negotiation between the Treasurers of Ontario and the other provinces, and the federal government in 1984, 1985.

An. hon. member: Obviously.

Mr. Hewitt: I would also enter into the record a rather interesting aside, and I believe you were a party to it as well, David; at the National Pension Conference Monique Bégin looked over to, I believe it was the Deputy Prime Minister and said,

"Well, I guess for all intents and purposes we can consider that money gone and we cannot expect any repayment," therefore, if you will, openly admitting before the whole body present at the national conference centre that some increase in the Canada Pension plan premiums may be required to maintain the funding on an even keel basis. But this is a subject of considerable debate for the members of this Legislature and possibly future Legislatures. The FEIC does not have any position on that.

Mr. Peterson: One other question, and you only have to mention one number to respond: You have addressed the coverage question and you have added some new perceptions to the question as far as I am concerned, which I appreciate very much, and you have a broad view of this question, other provisions for retirement income, corner store, house, blah, blah, whatever else. In your opinion, according to your standards, what is the percentage of coverage now? Just give me a number. Do you think that 80 per cent are covered now, 50 per cent, 90 per cent? Which?

Mr. White: Working from the 68 per cent in the private sector, 77 per cent in private/public taken together, which comes from Arnold Shell's work and which was based on 1977 data, and we are now sitting in 1981, I would say the coverage is higher than either of those two percentages as of today.

Mr. Peterson: You also include other things in there?

Mr. White: The only two things included in there are registered pension plans and registered retirement savings plans.

Mr. Peterson: But you mentioned housing--

Mr. White: Whether you are saving for a house--

Mr. Peterson: The gentleman mentioned a corner store, which is a retirement plan.

Mr. White: --profit sharing plans, et cetera, et cetera.

Mr. Peterson: I assume that is your working premise when you are looking at the coverage question. In your opinion, taking all of those things--look, I am trying to determine the extent of our problem on the coverage question, I want your opinion. Some people argue we have a 50 per cent problem in terms of coverage, other people argue we have less. What is your opinion about the extent of the coverage problem?

Mr. White: It is not nearly as serious as it is claimed to be.

Mr. Peterson: Will you give me a figure? I am not going to hold you to it.

Mr. White: It is certainly more than 80 per cent.

Mr. Peterson: You think it is more, in other words only about 20 per cent of the people really have a coverage problem? That is very important to us.

Mr. Chairman: Thank you very much, gentlemen. Your attendance this morning has been very helpful indeed to our committee.

Mr. K. H. Smith: Mr. Chairman, may I just say one word before we finish?

First of all, I would like to thank the chairman and the committee for inviting us. It has been very fruitful for us, and I hope helpful to you.

12:30 p.m.

I would just like to leave this with you: you have an extremely major topic under discussion and under review and I sympathize with the difficulties you will encounter in coming forward with your recommendations and reviewing all the detail before coming to those recommendations. I want to assure you that we will be standing ready to assist in any way that we can.

Our whole purpose in being here today is to try to assist. We are not really trying to push one thing or another. We are really trying to assist you in arriving at something that will be fair and equitable and useful.

When we are looking at the pension issue we must also be aware of its position in relation to a full host of other what we might call fringe benefits or various social requirements, and we must look at the impact of what you may suggest in the context of the total impact of these various social programs in relation to the economy's ability to handle this.

I am sure you must be aware of that. I will just close with the statement that to some degree it is a choice between short-term gain for long-term pain or short-term pain for long-term gain. With that gentlemen, thank you very much.

There is one other thing I wanted to mention too. I am sorry. As you know, we are very interested in this pension issue. We were very concerned at the National Pension Conference and the manner in which it was put together and so on, and the fact that the provinces had no representation and that the business people had very little representation. I just want to mention to you gentlemen that we, the FEI, are proposing to present a major pension conference in mid-November, the 16th and 17th, here in Toronto at which we will try to have a very thorough presentation of the issues, of the income schemes, of the retirement income available to retirees which will be from employment pensions, pension plans, social security, individual planning, financing obligations, (inaudible) and the results in capsule form of our survey which is now completed and will be ready for publication about that time.

On the following day we plan to have Miss Haley, heading a group from CAPSA, to present their perception of the role that they would like to see the provinces attain and achieve in uniformity, which is an extremely important issue as far as we are concerned, and sessions on the fund management and measurement and

we also hope to have an hour with Treasury (inaudible) as well.

I just leave this with you and we hope that we can count on some participation and some support from all of the various provincial governments in this particular venture. We hope that it will be a conference that will present the issues unbiasedly and will enable those who are charged with responsibility in respect of pension plans to gain some further insight into problems.

Thank you very much.

Mr. Chairman: Again, thank you very much, Mr. Smith.

The committee recessed at 12:35 p.m.

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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

THURSDAY, AUGUST 20, 1981

Morning sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk: White, G.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Association of Canadian Pension Managers:

Carlton, C., Vice-President, Towers, Perrin,

Forster and Crosby

French, D., Assistant Treasurer, Simpson Sears

Vincent, A., Executive Director

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, August 20, 1981

The committee met at 10:20 a.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I see a quorum. If we might get started, gentlemen.

You now have in your binders, for reading and study, exhibit 61, which is articles compiled by our committee research officer: "Mandatory Pension Plans: What Reasonable Solution," by John W. S. Arthur, Canadian Business Review, volume eight, number one, spring 1981, pages 41 to 44; "Retirement Income Policies: The Issues," by H. Bartel, Business Quarterly, winter 1980; "Our Pension System Does Not Meet Women's Specific Needs," by Monique Bégin, the Canadian Podium, June 1981; and "Standards Needed to Judge the Adequacy of Retirement Income," by Shirley G. Carr, the Canadian Podium, June 1981.

Exhibit 62 is the Financial Executives Institute Canada "Report on Survey of Pension Plans in Canada," March 1980. That is not in your binders because of its particular size, but we have it.

Exhibit 63 is Submission from Management Employee Group, Ministry of Transportation and Communications, with a covering letter from Mr. Harold Gilbert, Deputy Minister of Transportation and Communications.

Exhibit 64 is the Canadian Life Insurance Association kit on portability of pensions.

Exhibit 65 is committee research officer background material on issues raised at committee meeting of August 19, 1981: old age security, guaranteed income supplement and spouse's allowance projected expenditures; impact of demographic changes on pay-as-you-go financing; social security in the United States and Canada; and impact of pay-as-you-go financing on the saving rate.

We are fortunate today in having with us the Association of Canadian Pension Management. I believe we have, as a part of that delegation, Mr. David French, Mr. Colin Carlton and Andrea Vincent. Will you please come forward?

I might say that David French is the assistant treasurer of Simpson-Sears, Colin Carlton is vice-president of Towers, Perrin, Forster and Crosby, and Andrea Vincent is executive director of ACPM.

I do not know who the spokesman is this morning, but if you could carry on in any way that you like. You may want to summarize or précis, because you are going to be engaged, I am sure, in a little cross-fire as you proceed.

Mr. French: Thank you, Mr. Chairman. As an introductory note, I would like to read a written submission that we have here from the Association of Canadian Pension Management. We do not feel that this in any way represents our full position but, as you have said, we welcome an opportunity to discuss our various views. But as a starting point, I will read this, if I may.

As an association which represents pension sponsors predominantly in the private sector and which shares the concern of all those involved in seeking solutions to the pension problem, the Association of Canadian Pension Management would like to express our appreciation for this opportunity to respond to the recommendations put forward by the Royal Commission on the Status of Pensions in Ontario. We believe that it is particularly valuable for organizations such as ACPM to be a part of the ongoing debate as to the future development of pensions in Canada.

Taken as a whole, the commission's report is a well-thought-out and carefully researched document. Our organization is in agreement with many of its general conclusions. Naturally, there are a number of specific areas where we might have taken a different approach. The following represents our viewpoints on some of those issues which are of particular concern to us.

On the subject of statutory pensions, it has been established by the various reports that single retired persons who do not receive Canada pension plan and who do not have other retirement savings are the one most needy group among our elderly retired. It is our feeling that, rather than making across-the-board adjustments, GIS and Gains should be used to channel funds directly to those persons most in need.

As regards the question of whether or not to expand the CPP, we are in support of the commission's opposition to a sizeable increase in the Canada pension plan benefit level as well as the commission's rejection of full funding. In both cases, we believe that the exorbitant increase in the contribution rate, which either of these would entail, supports the objection.

On the subject of employment pension plans, private pensions are in a stage of transition from their original concept of being a reward for long service to the more current thinking of being deferred compensation. This transition is costly to fund sponsors. It must be understood by plan members, by plan sponsors and by government alike.

We feel strongly that implementation of the changes recommended by the commission must be the subject of an intelligent and practicable phasing-in program which would take into account the economic problems involved and which would allow time for the necessary adjustments to be smoothly incorporated.

A simple but unavoidable factor which must be borne in mind in any discussion of pension reform, in our opinion, is this: In an age of unprecedented cost-of-living increases, how much of his dollar earnings is the man in the street going to be willing to

sacrifice now for the sake of future security? The individual has the right to choose how to allocate his present earnings. The individual's need to meet his immediate financial requirements cannot be overlooked, no matter how well-intentioned our proposals and reform schemes for the future might be.

The report's recommendations regarding the proposed PURS program are of course one of the most controversial areas of discussion. As applied to the standpoint of small businesses, however, the introduction of a PURS program on a mandatory basis will be less enthusiastically received, particularly if phasing-in arrangements are inadequate.

Participation in a universal pension program, in addition to Canada pension plan with its inevitable cost increases, is an expensive undertaking, especially for small business; and it could be argued that more flexible alternatives, such as profit sharing or RRSPs, while sacrificing nothing in benefit quality, might be more feasible in certain instances.

With these considerations in mind, we would like to suggest that any new pension system be conceived rather in terms of a fail-safe option, mandatory only in the event that an employee or company is not covered by an adequate alternative plan. To such a design, very small companies and recently incorporated companies might be temporarily exempted from participation.

A further suggestion would be to introduce a PURS-like program on a voluntary basis for the first few years in order to allow private industry time to respond. If after that initial grace period small businesses and other nonparticipants were unable to come up with acceptable solutions of their own, then mandatory inclusion could be considered.

The commission's approach to the problem of inflation in relation to pensions is one of several being currently proposed. However, this particular proposal is fraught with technical difficulties, its costs are obscure but would likely be very large, and its tax credit nature is inconsistent with the commission's emphasis elsewhere on the need for individual responsibility and sound financing.

We would emphasize the considerable steps that the private sector has already taken and is taking now towards maintaining the value of pensions in payment. The private sector recognizes pensioners' needs for some predictability in this income production, but we are also mindful of plan sponsors' needs for a degree of certainty as to costs and for protection against uncontrolled fluctuations in these costs.

The ACPM supports in principle the direction of changes in such areas as vesting, survivor benefits, disclosure and uniform legislation.

Finally, I would like to read a brief listing of our association's primary objectives and concerns. We believe:

1. Steps must be taken to alleviate poverty among today's

elderly.

2. All Canadians must be treated equally in pension matters.

3. Private industry must be allowed to remain in a position to make sound, prudent business decisions.

4. Employees must be permitted to retain some room to negotiate the allocation of their total compensation package between present and deferred consumption.

5. The wholesale transfer of pension liabilities to future generations is unacceptable.

6. A strong, healthy economy with inflation under control is a prerequisite for our society in general and in particular for the payment of adequate and protected pensions.

7. Time and a suitable phasing-in program are prerequisites to the effective introduction and implementation of pension reform.

10:30 a.m.

Mr. Chairman and gentlemen, it is important to remember that fund sponsors belong to their own pension plans and so retain a vested interest in the adequacy of their plans, in the outcome of this debate and the impact of that outcome on Canadian society.

Mr. Chairman: Thank you, Mr. French. I was going to ask you if you would not mind indicating to the members the extent of your association in terms of the nature and numbers of companies or other organizations that are under your umbrella.

Mr. French: Of the associations, Mr. Chairman?

Mr. Chairman: Yes.

Ms. Vincent: Slightly over 500 organizations belong, most of them plan sponsors, although consulting firms and quasigovernment groups belong as well. We consider ourselves to be largely an educational group and try to share as many ideas as we can; we spend a lot of our time in workshops, preparing papers and that type of thing to generally lift the level of awareness, because the industry is changing so rapidly.

Mr. Chairman: Is it mostly private sector membership?

Ms. Vincent: Yes.

Mr. Mackenzie: It is mostly private sector plans that are involved?

Ms. Vincent: Yes.

Mr. Williams: Yesterday we had an organization in that was representing the private sector, but primarily the large industrial concerns. Do you have a broader spectrum than that in your representation?

Ms. Vincent: Slightly broader than that, yes.

Mr. Williams: You are dealing more intensively with the small businesses as well?

Ms. Vincent: No, I really cannot say that. For the most part, our members are large companies.

Would that be the Financial Executives Institute you were talking about?

Mr. Williams: Yes.

Ms. Vincent: I am sure there is a great deal of duplication in our membership. We specialize more in pensions, and they do slightly other things; but for the most part their membership is probably the same as ours.

Mr. French: The duplication is probably among the larger companies. The larger companies will tend to have representatives in both organizations. Possibly the smaller members of the ACPM will not participate in the FEIC.

An additional distinction that you might make--and you might have foreseen this from its name; the FEIC would have given you more financially oriented input--is that their approach to pensions is probably through the finance departments of the various members.

Mr. Mackenzie: Do you advise or assist in the techniques of management of the plans?

Ms. Vincent: Through self-help we do; the members help each other, but as an association we do not advise.

Mr. French: Individual members, I suspect, are involved in the design--

Mr. Cureatz: It covers all these organizations that have pension plans, who then get together and call themselves the Association of Canadian Pension Management. That is what we are talking about.

Ms. Vincent: We have some union representation, and some government and some quasigovernment, but for the most part is it large corporations or pension plans.

Mr. Cousens: Mr. Chairman, on the presentation, I had a question that I would like to raise if I might.

I would like to have you elaborate, if you would, on this fail-safe option.

Just to give you a bit of prologue, I have trouble with things that are mandatory, and that really is part of the problem I have with PURS, but some kind of fail-safe option as you described would be of interest to me. Could you expand some of

your thinking there; where it has been used, how it could be implemented, and just what some of the possibilities are to that?

Mr. French: Without at this time getting into specifics, I think that underlying that concept is a recognition that in any society, in any organization, the progress made by various members is going to proceed at a different rate.

Certainly for my own part, speaking personally, I recognize that changes have to be made. I believe that changes are being made within the private sector and can continue to be handled by the private sector. But I also recognize that some form of a floor level of benefit is important to Canadian society and to those individual workers presently involved in the Canadian economy but who will be tomorrow's pensioners.

If we are to avoid the problems tomorrow that have given rise to this debate today, we need to move immediately with some form of floor level so that we can combine protection for all individuals with the opportunity for the private sector to evolve its own plans.

Mr. Cousens: Has it been used before by any other governments that you know of? Is it a fresh idea? Where have you seen it?

Mr. Carlton: I do not believe it has been used by other governments in Canada. I guess the Manitoba government is making some progress with the introduction of a thing called VEPP, the Voluntary Employees Pension Plan, which is a PURS type of arrangement with matching contributions from the employee and the employer with very fixed benefit structure and contribution structure; so it is very simple to introduce, but it would be voluntary on the part of the employer to introduce it.

Mr. Williams: Supplementary: On this Manitoba program, was that introduced last year?

Mr. Carlton: This year. In fact, it is not in operation yet.

Mr. Williams: It has not really gotten off the ground. So we can't really look at that as a precedent in any fashion whatsoever.

Mr. Chairman: Mr. Carlton, I have a supplementary as well. You mention that it would be voluntary on the part of the employer. We had the Canadian Manufacturers' Association in, and their recommendation was that there be this type of PURS concept but that it be voluntary on the part of the employee; if the employee elected, then it would be mandatory on the part of the employer to contribute.

I am wondering whether, in answering Mr. Cousen's questions, you would include some response to that concept.

Mr. Carlton: I have mixed emotions about that concept in that to a great degree I do think that planning for one's

financial future is an individual's responsibility over and above a base level. If one follows that concept, one could then argue that the participation in a plan should be at the employee's option and then the employer does his matching share.

But the counterargument to that is it is more of a financial one. I think it would be very difficult for an employer to know just what degree of participation he might be faced with, and his planning therefore is impeded by that. Perhaps after a few years had gone by you might get some feel for what it is going to cost you, but it is very difficult for an employer to know; so presumably he is going to have to budget for the maximum. In that case he may see it as not being a major improvement over a mandatory plan.

Mr. Chairman: In terms of budgeting, I am ever mindful of the little employer who may only have a few employees, who cannot do very much budgeting and he is maybe only making wages himself or he is taking what is left over after he pays his expenses. I can see where that segment of society may have some problems.

Mr. French: If I might, Mr. Chairman, I would like to add something to that.

Certainly I recognize the attractiveness of Mr. Carlton's arguments, but one of the themes as I see it in the total presentation of the ACPM is the need for a reaction to the practical realities.

I feel there are many sides to this question of practicality. One of the sides that I think we have to be very aware of is the reaction of the average individual. I would like to suggest, sir, that those of us in this room are not average; we are not typical. To the typical Canadian under the pressures that were part of our submission, the pressures of inflation, it becomes perilously attractive to say that today I have to buy groceries, tomorrow will look after itself.

I believe I would recommend that there be some degree of requirement of participation on the part of the individual at a minimum level, and then the individual responsibility for the addition can be brought into play.

10:40 a.m.

Mr. Chairman: Mr. Cousens, I am sorry to interrupt you. Carry on with your questions now.

Mr. Cousens: When you start talking about average individuals, there are a couple around me who might be more average than others.

I want to follow up on your point about the expansion of the CPP. I did not fully understand your point about increasing the level and the effect that that would have on increasing the cost of the service. Could you open up just a bit about what your thinking was there?

Mr. French: Mr. Chairman, I believe that the total subject of the CPP is perilously inviting for the uninitiated to go charging in. I am not suggesting that any of us in this room are uninitiated, but much of the talk that one reads in the press and what have you is very concerning.

I submit that there are two types of expansion within the CPP. One is preordained, written in stone as of today; that is, the cost increase from the present 3.6 per cent to something in the area of eight, nine, 10 per cent which Canadian society is going to have to face in the near-term future, the next 10 or 15 years. We have that coming down. I think we cannot afford to forget that.

It is against that background, if we are going to increase benefits, that we need to consider also the increase in the costs which can be just phenomenal on top of that level of costs.

If we do not pay full attention to those cost increases, the single or the double, then we are unwittingly supporting and promoting a change in the total nature of the Canadian economy, of Canadian society. I am not necessarily arguing that that is right or wrong, but I believe that impact on the overall Canadian society, the extent to which we believe in our free enterprise society, must not be overlooked.

Mr. Carlton: I would like to add something there. On the expansion of the CPP, Mr. French already referred to the necessary increase in costs. I think, to get back to the theme of predictability, that the private sector can handle things as long as it has a pretty fair idea of what the rules of the game are.

On the question of expansion of the CPP, it would be most helpful if the contribution increase that is necessary, and which we all know is necessary, be preordained and fixed and determined at this point; then you have a base on which you can decide whether or not you can expand further. At the moment, it is completely unclear as to when, if, how, how much the CPP cost increases will occur, but they will occur undoubtedly; they have to be faced somewhere.

To double the CPP, as has been talked about, is not a cost of doubling 3.6 per cent, which is what we are paying now. It is a cost down the road of going from 3.6, where we are now, to more like 19. That is an entirely different order of magnitude and one which we believe is an unacceptable one.

Mr. Peterson: Let's get down to the OFL argument on this point. Recognizing that they say 15 to 17 per cent in 50 years, the OFL says that if you double the CPP benefit level immediately and went on a pay-as-you-go program, recognizing there would be accelerated increases (inaudible), they say if you take the present cost calculation of that, the present cost of that money now, it would be cheaper for the contributors to the pension plan than would be a PURS program.

Mr. McClellan: Based on an adequate pension.

Mr. Peterson: The alternative is PURS, for example. Obviously it is more expensive than doing nothing; but, I am saying, taking some other alternative that involved the private sector. In fact, the contribution rate for the employer would be less. Now they did not supply any detailed information on this; we asked them for it and we hope they do.

Have you ever heard that argument? Do you have a response to that?

Mr. Carlton: Yes, I have heard that kind of argument, maybe not that specific one. The fact of the matter is that \$1 pension costs \$1 whether you provide it through the public sector or the private sector. But when you pay it is what we are talking about here.

In a pay-as-you-go CPP-type system you can delay the payout, because you do not build up funds, or at least in general you do not build up full funds. Therefore, in a sense it is true that it is cheaper for the current generation to provide itself with a doubling of pension through CPP than it is for the current generation to provide itself that doubling through a PURS program. It is really cheaper because you have delayed paying the price and passed it on to the next generation.

Mr. Peterson: I understand your point, but I think their point is that overall, over a 50-year span, averaging out that cost--obviously there is a major intergenerational transfer, of which I have personal problems with. But, apart from all that, they say taking the present cost of money it is going to be cheaper over that 50-year period.

Mr. Carlton: The economic side to that is that the two basic assumptions that will determine that are the rate of return on the invested funds in the private sector versus the rate of growth of earnings on which the contributions are based for the public plan. If the rate of return on invested funds exceeds the rate of growth of the earnings base, then the private sector approach is technically less expensive. The reverse follows if the growth of the population is higher.

The argument about relative cheapness could go either way depending very much on some rather imponderable economic variables. I do not think that I, as an actuary, could say categorically that it will be cheaper one way or the other. I would hope that it would be cheaper through the private sector, because I happen to believe that we ought to be able to achieve a good return on invested capital.

Mr. McClellan: This is where we get confused in the committee. People are coming forward and saying we cannot afford the costs of expanding the Canada pension plan. But at the same time you have just conceded that it is not really a question of which is cheaper, assuming that you develop a network of adequate pensions, either in the public sector or in the private sector. The question then is whether or not we can afford to have adequate pensions, period.

Mr. Carlton: Adequate pensions, as Mr. French said, is a question of how much current consumption you are prepared to defer for later consumption. The adequacy is a direct function of how much deferral you are prepared to adopt as a society or as an individual.

Mr. McClellan: Sure. But, with respect, it would be more helpful if people confronted the issue head on, bluntly; and if people feel that we cannot afford adequate pensions, they should say so, rather than, with respect, skirting the issue.

Mr. Carlton: I think affording is a personal choice, isn't it?

Mr. McClellan: It is a societal choice.

Mr. Carlton: It is also that at the base level, but maybe not beyond the base level.

Mr. Mackenzie: Also, when we are talking about costs, I would like to have some assurance--and I haven't had that yet, although I have heard the arguments made that, yes, you can do it cheaper, or you cannot do it cheaper with the private sector--as to whether or not such a plan on a national basis, if indeed that was the route we took, could be done cheaper with the private network and it could not be done through CPP.

In other words, in terms of administration, do we run into any multiplicity in plans? Do we run into any problems in management fees? What are the costs going to be in terms of that angle as well? Does that enter into it or doesn't it enter into it?

Mr. Carlton: Yes, there is a cost in the private sector or the public sector doing it. I do not believe the administration expense is a determining factor, though.

Mr. Mackenzie: It is a relatively simple matter now in terms of your payments because the mechanism is set up.

10:50 a.m.

Mr. Carlton: Either way, in my view, a PURS-type program should be very simple to operate, for instance, as a vehicle. I do not believe it should carry heavy administrative expenses. My objection to the CPP type of approach is not primarily based on cost. All I am saying is that as far as that is concerned that there should be a recognition of that cost. My objection to CPP is more in the nature of its intergenerational transfer. If it is not to be faced by an intergenerational transfer and you said, "Okay, we will pay the rate that we would have to pay if it were funded," you would generate a gigantic CPP fund, truly gigantic. I feel that is equally--

Mr. Williams: A further supplementary on that if I might.

You have been talking about the increased cost of CPP. Let

us look at PURS for a moment. Do you feel that the money purchase design of that program and the way in which it would be structured would protect that particular program, if it were introduced, from the same type of necessary cyclical adjustments in premium payments that would have to be imposed? Do you feel it is a much more financially sound type of program? Or do you feel if it got off the ground on a more financially sound basis it could protect itself against that type of situation that CPP finds itself in now?

Mr. Carlton: PURS is, almost by definition, financially sound because you only get out of it what you put into it as an individual.

Mr. Williams: So the only adjustments probably would be for administrative costs over a period of time. To that extent then, it would be protected from the type of situation that CPP is exposed to.

Mr. Carlton: It is protected from any degree of intergenerational transfer.

Mr. French: It is also protected from any potential manipulation of benefits which might become attractive independent of appropriate adjustment in costs.

Mr. Carlton: Correct.

Mr. Cureatz: Mr. Carlton, you made the statement about support for uniform legislation. Could you just clarify that for me in terms of what you meant by uniform legislation? Do you mean provincially or federally?

Mr. Carlton: It may seem rather nitpicky from the perspective of members of parliament but, as a consultant, I spend an increasing amount of my time helping clients deal with different legislation from Ontario, Quebec, Saskatchewan and Alberta. Fortunately, British Columbia does not have any yet, but it is probably only a matter of time. It really does become burdensome. That need for interprovincial co-operation is a much larger problem in practical terms than might be apparent. So the call for uniform legislation is very much along those lines. We agree that a disclosure is needed; but, fine, let us have it agreed by all provinces.

Mr. Cureatz: So that, for instance, it would make portability easier?

Mr. Carlton: Certainly.

Mr. Cureatz: Then you are not advocating strictly all-encompassing federal legislation but certainly if one province, say like Ontario, took some kind of leadership in a particular program and could convince other provinces that that would be a convenient way to go, then we would have that kind of plugging in and out.

Mr. French: Yes, I would hope that some leadership could again be exerted by Ontario as it has before. It might help, for

instance, if the Association of Provincial Supervisory Authorities, which does meet, were to hold its meetings in public; perhaps the public eye on it would result in hopefully some more uniform legislation than we are currently receiving.

Mr. Williams: I come back, Mr. French, to your observation which is obvious, that you have to have a certain floor to work from if you are going to make any such proposal that you bring forward work.

I am still wrestling with the same type of thoughts that were put forward the other day by the CMA and the institute yesterday in being strong proponents of a voluntary private program.

Obviously there have to be some parameters set out, some fairly firm guidelines if you are going to have any possibility of having universality built into the program. I think we agree there, do we not? I do not know how that can be achieved without some element of legislative control being imposed, even if it were left with the private sector to try to enrich what we have now and introduce what is failing in some of the existing programs so that in effect it would be a universal program.

To do that, I think there would have to be some legislative compulsion. It is possible that could be obtainable short of introducing a provincial universal retirement system. I do not know, but I am trying to get a handle on the extent of legislative control which, as I see it, would be absolutely necessary. For instance, the Canadian Manufacturers' Association talked about a private central registry to oversee the operation of their private voluntary program.

I am really having some concerns as to whether, for a program of a universal nature, that is realistically achievable working through a private central authority rather than having it administered by the government. I am not adverse to the private sector involvement. I guess my bias is in that direction, but I am trying to look at the realities of it. Perhaps you could respond to the few observations and concerns I have expressed.

Mr. French: I hear at least two concerns there. First of all, I hear some concern about the position of the Association of Canadian Pension Management; I may not have conveyed it adequately, but I don't believe we are opposed. In fact, my best assessment would be that we would support some form of mandating of floor protection.

I did comment it is my personal belief that legislation has to apply not only to plan design but also to individual participation. Not only must the plan be available, but also there has to be participation on the part of the individual. So I would want to make sure I have conveyed myself accurately there.

The second point I heard was a contrasting of the relative merits of central administration by government, which I suppose in essence is either an actual CPP, CPP-like program or a quasiprogram as opposed to some form of private sector central

administration which I gather the CMA has advocated.

It would seem to me there is a third part which would go along the lines that, if there was legislation requiring a certain degree of protection, the administration--and I believe, although I should not put words in (inaudible) mouth, I believe it is his concept that the administration can then be left within the private sector in the hands of the individual employer. There may have to be some fail-safe, some backup PURS central concept available to the very small employer.

I think we are dealing with an important sector of Canadian society, the two-man enterprise and the very small enterprise, which will find the provision, the remittance of premiums a very real burden, without having to go to organized plans. But I believe the private sector could provide the mechanism to receive the premiums from such employees and probably would be sufficiently flexible to continue to receive and centralize the premiums for a David French as he moved from job to job, as Canadians tend to do.

Mr. Williams: Do you see anything necessarily contradictory in having, say, the Pension Commission of Ontario act as an administrative authority in the picture? The royal commission report, of course, suggests their terms of reference and their responsibilities be somewhat expanded and, of course, tying it in with the PURS program.

11 a.m.

There are a number of things there which, I suppose, could be appropriately vested in the commission. Even if the PURS program were not there, that would give them some greater latitude as far as having clout to deal with an overall administration of the industry is concerned.

Mr. French: No, I do not see anything necessarily contradictory.

I am not sure I would applaud such a move from a number of points of view. I question, from my point of view, how welcome such an extension of role would be to the pension commission itself.

I would be concerned, again from my point of view, of our relationship directly as fund sponsors and through our consulting actuary with the commission, that there would be some impact on the impartiality, which is so much a part of the base of credibility the Pension Commission of Ontario has established.

I would see the pension commission being put in the role of having to fulfil two functions. I am not sure there is not a degree of contradiction in that duality of role.

Mr. Williams: Do you feel, with possible contradiction, that would impair the credibility of it?

Mr. French: I would see the pension commission having to

be auditor and operator. I am not sure that is a happy combination of functions. A referee needs impartiality. An arm's-length relationship with the total operation is a necessary attribute of a referee, of an authority.

Mr. Williams: Then I gather, if indeed the suggestion of using a central agency or an authority in the private sector were not acceptable, that the other option left is another separate government agency, apart from the pension commission itself.

Mr. French: Despite my bias, I could--

Mr. Williams: To meet your objection.

Mr. French: Yes, which should be as subject to the supervision and review of the pension commission as any other fund administrator.

Mr. Carlton: I am not convinced of the need for a central authority to run the PURS-type program in that I think the existing RRSP vehicle requires only fairly minor change. To be a perfectly good vehicle, it has to be locked in. That is the key thing. It has to be noncashable, which it is not at the moment. You can go and cash your RRSP tomorrow if you feel like it.

I do not believe that would be a major shift in the operation of RRSPs, and I believe that even small companies would be able to make the payroll deductions and deposit them to a single RRSP.

I admit it would be difficult if the employee had to be given the choice of any RRSP he could name. Then the employer might be having to send one cheque here, two cheques there and five cheques somewhere else. Provided that the employer retains the choice of RRSPs, I think it is a perfectly feasible administrative vehicle for a PURS-type program, as it stands, with fairly minor change to the RRSP.

Mr. Riddell: My question is much along the lines of Mr. Williams's. But by way of further clarification, are you suggesting one option would be to introduce the PURS program on a voluntary basis and mandating a floor protection? Or are you suggesting that they only mandate if it becomes obvious that businesses, companies and whatnot are not introducing or changing suitable pension plans in the best interests of the employee? Where does the mandating come in? Is it if it is obvious the companies are not introducing suitable pension plans?

Mr. French: It is possibly more than just playing with words. The mandating has to be the requirement for a minimum floor level. During the phasing-in period, which is essential if the private sector is to absorb the changes and the increased costs, if through that introductory period individual companies are not responding, then there would have to be some form of backup program of which a PURS-like program--we could comment on the details at some other time--could well be a fallback. Does that respond to your question?

Mr. Riddell: Tell me this: What incentives are there at the present time for companies to introduce pension plans or to change and continue to make improvements to pension plans whereby the employee would have suitable income replacement when he or she retires?

Mr. French: The incentives are probably hard to define in words but are no less strongly felt by what I would call responsible management.

I have no doubt in my own mind, speaking for my own company--and I would make that departure at this time, if I may--that from our very senior management there is a strong compulsion to devise programs which provide adequate retirement income and security for our employees; not only to devise those programs but also constantly to be reviewing them, not only in the light of the individual's needs but also in the light of changing social pressures, which I think responsible management is aware of and is coping well with; and in the light of the corporation's ability to pay.

That is one of the realities we work with. I believe there are some legislative requirements, such as CPP. That is no small factor in management's calculations. But the strongest driving force is the commitment of responsible management to make these provisions available.

I am concerned that last statement came out as paternalistic. I did not intend it to, because part of the evolution in management's thinking we have referred to in our brief is the move away from the concept of pensions being some form of grant to that of support of the concept of deferred compensation.

That, again, is in two parts: Management has to make some decisions and management has to be cognizant, either in a bargaining or through a communication process, of the wishes of its members. These are the pressures. As I said earlier on, I am aware that in the saying of them they may not sound too compelling but, in the day-to-day life and pressures that motivate management, they become very real.

Mr. Peterson: I do not understand the vehicle you are suggesting to guarantee that floor. You were suggesting some vehicle or mechanism to guarantee that minimum floor for retirement earnings. What are you suggesting? I missed it.

Mr. French: What I am suggesting, first of all, is that the floor level be mandated, that the private sector sponsor be given the opportunity to devise its own program to provide that level, failing which there would be some vehicle to which the employer must contribute. I have accepted a PURS-like program.

Mr. Peterson: What is the floor, in your judgement?

Mr. French: That is one of these questions that just does not yield to a simple answer. What you are getting into now is the total concept of what is adequate retirement income. We are

looking at 60 to 70 per cent, possibly 80. When I give a range, I am unhappy, because that cannot come across too well. But the range is none the less realistic; are we talking \$7,000 or \$70,000 annual income?

Mr. Peterson: We are working here with about 15 per cent through OAS, 25 from CPP and maybe 20 for PURS; so you would be in the 60 to 65 range as sort of the working premise. You are comfortable with that?

Mr. French: I am totally comfortable with that, and I believe it is realistic.

Mr. Carlton: Of the average industrial wage, that is.

Mr. Peterson: Are you saying a company's responsibility is to guarantee, let us say, 60 or 65--whatever the number--per cent of the AIW by way of replacement income on retirement, and: "You figure out a way to do it, you guys. If you don't, we are going to come back and get you somehow or other." Am I paraphrasing you properly? Because I do not see how it can work.

11:10 a.m.

Mr. French: I am not wholly comfortable with the paraphrase. I think the 15 per cent for the OAS and the 25 per cent for the CPP, looking at the AIW level, are already in place; so we are talking about the area in between. And I believe that that is a reasonable responsibility to look to employer and employee to provide.

Mr. Peterson: I just cannot conceive how this would work in legislation. You pass a law saying to all companies you must provide 20 per cent of the AIW to your employees because if you do not we are going to come back in a year and a half and legislate it. Is that what you do? I haven't been able to deal with the technicalities of your proposal. At least I do not understand it.

Mr. French: The proposal written down was not couched in technical terms. I do not think that we were aware that we would be required to come up with that degree of technicality, Mr. Chairman.

Mr. Peterson: We are just wrestling with all these things, as you can understand.

Mr. Mackenzie: But you did say that there was an adequate floor need; so I think that is a legitimate question. What are you suggesting?

Mr. French: I think the private sector has two needs. I think it needs time to adjust. We just do not have the luxury of immediately being able to accept the increased cost involved. I think we also need some flexibility in the form of the vehicle. The most obvious form would be some type of registered pension plan, the conventional registered pension plan. It might be another type; probably in the smaller businesses this would tend to be, as Mr. Carlton has commented, that there be some

contribution funded into an RRSP for the individuals, whether wholly paid for by the company or on a contributory basis between employer and employee. It might well be that the basis of funding could be on a profit-sharing basis, which would give the flexibility needed by small cyclical businesses to fund when they can and to defer funding on the short term when they cannot.

Mr. Peterson: But you're still saying we have a mandated benefit level. And you are saying to give them five years to check in with Wells Bentley and say, "Okay, we have done it," or, if they have not, he will go back and sneak up on them and say, "You have not done it; therefore, we are going to pass a law that you have to do something."

Mr. French: I would not want to suggest that Mr. Bentley has to sneak.

Mr. Peterson: Is that what you are suggesting?

Mr. French: I think that there would be some form of supervision, some form of requirement to register plans.

Mr. Peterson: You would give them the choice of total flexibility of the plan. Whatever they want to do is fine as long as they provide the benefits.

Mr. French: Provided the benefit is going to be provided, it is going to be forthcoming and funding--

Mr. Peterson: How much time would you give them before you got mean?

Mr. Carlton: Mr. Chairman, I think I should interject something here by way of clarification.

I assume Mr. French is talking about a benefit level which would not be necessarily applicable in full to people retiring in the next two to five years. I assume he is saying that would be the target to be reached over a good portion of the working career. In other words, people retiring in the next five years could not be expected to go out on 60 or 65 per cent.

Mr. Mackenzie: Like 47 years such as in PURS?

Mr. French: I do not believe 47 years, but I do not believe two to five years either.

Mr. Peterson: In other words, you want something in place that is properly funded and indications of some proper payout over a period of time.

In your opinion, gentlemen, what are the proper time parameters that we should be working in? We are facing a number of work problems. One is the retired poor today. Obviously there are other mechanisms to handle that if one so desires. What is a reasonable amount of time?

Mr. Carlton: I think we are talking of two time periods

here. One is the time in which an employer has to comply to put in a plan and the other is the time period for that plan itself to mature.

Regarding the first time period, the time to put in a plan, I would be thinking in terms of perhaps three years. For the second time period, in terms of that plan maturing--and I speak personally at this point, not for the ACPM as a whole, because I do not believe this is a question that has been put to the membership--I would be thinking in terms of 20 to 30 years' maturity.

Mr. Chairman: I am not quite clear as to what has come out of all of this so far. Mr. Carlton, you indicated earlier that there should be a plan that would be mandatory or not depending upon the employer. I would throw out to you the reverse of that which was raised by the CMA; that is, if the employee elected, then it would be mandatory on the employer.

Now we are talking about possible mandating but with a tremendous potential for flexibility in terms of phasing in. I am not quite sure whether you are talking about a mandatory plan to raise the level from 40 per cent to 60 per cent; if it is mandatory, whether it is mandated by government or whether it is something that is mandated by industry with whatever technique it might use as a condition of employment or what have you.

And if all of this is necessary, I am not sure why it is not in place now--if it is the view of industry, that it should be and that you need a little more time to do it. I am not quite sure at what point you have arrived at in terms of implementation of all this.

I am just throwing those out to you, because they are questions that arise as a result of the discussion.

Ms. Vincent: Some of these matters, like mandatory pension plans, PURS, those types of things, are a little difficult for our association to address. Naturally, we have pension plans; so it is very difficult for us to set ourselves in a position where we are telling small business what to do and telling them the way to spend their money.

So it is hard for us. We want to recognize their problems, but we do not have the same problems. We have pension plans. So our association tries to improve our plans and make them better, but we are not starting from zero. I assume the PURS program in some ways would be for those people who are starting from zero.

Mr. Riddell: Do you receive any kind of response, though, from the small business membership of your association as to what impact a mandatory plan would have on them?

I represent an area where it is mostly small business; there is not very much large business. With the high interest rates, they come to me practically every time they see me in the riding and say: "We are just hanging on by a thread. We don't know how much longer we are going to be able to cope."

Now we come along and force some kind of a mandatory pension plan on them. What, in your opinion, is this going to do to the small businessman?

Ms. Vincent: I think that it would be very difficult for them to handle, if it were not phased in very carefully.

We do not have a lot of companies that are small in our membership. I would imagine groups such as the Canadian Federation of Independent Business and groups like that probably would have statistics that would be very helpful in this area.

Small business did adjust to the Canada pension plan in some ways. There is also a slight danger, if you force too much on small business, that they might contract out of hiring people. There are all sorts of things they could do to avoid the system if they really felt they had to. Or maybe they just could not afford it. I think statistics show that 60 per cent of small business fails within the first four years, or some horrible statistic like that.

We did mention that we think some people could not participate in this type of program. And we do have a--

Mr. Riddell: I just wonder how much more we can load on to small businesses and still have them continue to operate. Small business is the backbone of our economy; they say they still provide most of the jobs. It really is of some concern to me when I see what is happening to small business, and here we are sitting to decide whether we are going to mandate more of a burden on them.

Ms. Vincent: I personally share your concerns very much but, from the association's point of view, we do not represent people without plans at this time; so I cannot speak for them.

Mr. Riddell: Are we going to be hearing from any small business concerns?

Mr. Chairman: Yes, we will be.

Mr. Brandt: We just did.

Mr. Chairman: In any event, I wanted to throw that out to you, because I am not entirely clear as to what you are saying. You do not seem to be in favour of PURS. But you have to know what the rules are, and I don't think business can be continually subjected to a change of rules. I appreciate all of that, and I appreciate that there would have to be something that is practical and financially feasible.

11:20 a.m.

Mr. Carlton: I think I may have been somewhat misinterpreted when you say that we are not in favour of PURS. I think what we said was, yes, but only as a last resort--a fail-safe type of system. In other words, if the employer could demonstrate that he had an alternative that we still meeting the

objective over the agreed maturity period, then PURS only would be an option to the employer to use and not a compulsion.

Mr. Chairman: Would you make that mandatory in terms of all employers, regardless of the number of employees?

Mr. Mackenzie: That is presuming the (inaudible).

Mr. Chairman: That is right, yes.

Mr. Carlton: I have serious difficulty about the small businesses, but one possibility for even resolving the small business problem is to allow a profit-sharing plan as an acceptable alternative vehicle. There is no way that it can guarantee the benefits, but if there is some flexibility in when the contribution is made on the employer's part having to do with his profits, and if that were perceived acceptable as one of the alternative vehicles, then--

Interjections.

Mr. Peterson: Are you going to set aside 20 per cent of your pretax profits? I just don't see that is at all feasible.

Mr. Carlton: I am sorry you feel strongly on this matter. We would avoid it at all costs.

Mr. Peterson: I am just saying there are a lot of ways to be creative, surely, in one's accounting.

Mr. Chairman: Sure. You put your wife on the payroll and create another liability there; you increase your own salary--there are all kinds of ways that you can run up your expenses so that there would be no profits.

Mr. Carlton: Would you do that with your employee's pension plan? I don't know. Maybe you would.

Mr. Chairman: If it is a question of sharing profits and you have a very small business with--

Mr. Peterson: (inaudible) not pay taxes. That is a reality.

Mr. Carlton: True.

Mr. Peterson: Presumably that means there is not a hell of a lot of profit.

Mr. Chairman: That is corporate taxes.

Mr. Peterson: Yes, corporate taxes. So there is going to be nothing there to deal with.

Mr. Chairman: Mr. Peterson, you were next on the list of questioners if you want to carry on, unless you have worked everything in.

Mr. Peterson: I try to weasel in as much as I can.

Mr. Riddell: It is just like a football game: some of us are quarterbacks and Peterson runs with the ball.

Mr. Chairman: Maybe it is a quarterback sneak.

Mr. Peterson: I have learned in this committee you have to fight dirty or you don't get anything in.

Mr. Brandt: I am showing a great degree of patience. I want you to know that I defer to Mr. Peterson, who hasn't had an opportunity to speak yet.

Mr. Peterson: That is a refreshing change--patience coming from you.

Mr. Carlton: I just want to complete that essentially with one sentence. There is no question that if you want to mandate better pensions you have to mandate higher contributions one way or another. I don't think this association is in a particularly good position to speak for what small business will accept, only to say that we do recognize there are special problems there and special solutions are probably necessary.

Mr. Peterson: I recognize your jurisdiction on this thing, and I just want to ask questions related to that. Number one, if we suggested that we pass a law tomorrow that said within two years all pension plans must be portable, would you be uncomfortable with it? Could you live with it?

Mr. Carlton: It depends on the form of the portability.

Mr. Peterson: Just to say we must develop mechanisms whereby anyone with a registered pension plan now could transfer--on termination could buy into some other person's program. They must develop a formula whereby you can move onto another. The Financial Executives Institute says fine.

Mr. Carlton: I do also.

Mr. Peterson: Wells Bentley says it is not that difficult a thing to do.

Mr. Carlton: No. It is not.

Mr. Peterson: Wells, you are here. Defend yourself.

Mr. Carlton: As I said, it depends on what you want to (inaudible).

Mr. Bentley: I will defend myself tomorrow.

Mr. Peterson: I want a PURS that defers that. I want that in all cases.

Mr. Carlton: That's easy.

Mr. Peterson: So the only technical question is probably the costing question and working out some form of a--

Mr. Carlton: It is the price you put on the deferred benefit. What is difficult is to provide inflation protection in that deferred benefit.

Mr. Peterson: I am going to get to that in a minute. So you have no problem with that very basic point?

Mr. Carlton: No.

Mr. Brandt: Could I add one other point to that? Are you saying you could take 100 per cent of that built-up benefit and it would be portable, or would there be a percentage factor that you would be able to live with?

Mr. Carlton: Instant portability and full vesting, because you said portability. If you are including full vesting--

Mr. Brandt: I think he is talking about full vesting too, though, are you not?

Mr. Peterson: Portability of vested benefit.

Mr. Carlton: Yes. Portability of the vested benefit, but how much is vested? I don't think the association is ready for 100 per cent vesting on the first day of employment--after five years of employment maybe.

Mr. Peterson: That leads to my next question. What is your official position on vesting? Could you live with a five-year vesting rule?

Mr. French: Mr. Chairman, we will probably not want to talk as an association, but I can say that many major pension plans have five-year vesting. We have five-year vesting in our plan and we find it no difficulty. So I would personally deduce from that, yes, Mr. Chairman, the private sector could live with five-year vesting, again with the provision that those plans that do not presently have five-year vesting would need time to integrate it.

Mr. Peterson: If we believe in a deferred compensation concept such as we are developing, what about a one-year vesting?

Mr. Carlton: I think the point was made that it was in transition to that. I don't believe that concept is fully accepted.

Mr. Chairman: You used the word "perception," and it seems to me we are getting different interpretations of the treatment of pension benefits as deferred wages. Some say the perception out there is--or seems to be on the part of some witnesses--that it is generally accepted that pension benefits are deferred wages. When you start applying some logic to this, they are and are not treated as deferred wages. The interpretation seems to be in the mind of the particular organization that is coping with the problem.

Ms. Vincent: Most of the members would not necessarily agree that they are deferred wages or a reward for long and loyal service, but somewhere in the middle. Because if you believe pension benefits are deferred wages, then how can you support post-retirement indexing, or things that are definitely happening? That would not be necessary, or you would not feel that way. You would just say when someone retired, "Here is your money. Here are the wages that you have deferred." But you wouldn't be reviewing every year to try to increase your pensions, and you might not have various other benefits.

Mr. Chairman: There are all kinds of results, if you apply it in a strict way, that go both ways. It certainly has raised a concern in my mind. The word or expression has been used rather loosely and is somewhat confusing to me. I am sorry to interrupt you--

Mr. Peterson: No. It is a good point. We all use the concept to justify our positions if it helps, if it doesn't jell. That is what is happening here. You are quite right. These are things that you people have to deal with.

Another question I want to ask you concerns a number of different testimonies on the extent of the problem of post-retirement income--the coverage question. Some people come and say only 40 per cent of workers are covered by pension plans. Other people come and say, in real terms, when you factor in--and it depends on what you factor in--some people put their house in, their farm, their business, RRSPs, and God knows what else can be thrown into that--gold in the basement, if you want to throw that into the whole equation.

For operating purposes, I would like your opinion about what you feel the extent of the problem is; for example, the number of people in the work force who will retire and who will need some protection, who either have not got any negotiated protection, or have not looked after themselves through some device.

11:30 a.m.

Big problems and little problems--to be helpful, the CMA comes in and says, "Look, probably 80 per cent of the people are covered some way or other." The Financial Executives Institute Canada says what--75 per cent to 80 per cent? The OFL comes in and says, "Only 40 per cent are covered." Everybody has different operating premises on this question. I want to know what you think the extent of the question is, because it relates back to your first point about a legislative floor.

Mr. Carlton: I will try to respond to that. One of the problems is that it is a moving target. If you talk about people retiring now, you might well come up with an answer like 60 per cent. If you talk about people who are going to retire in 20 years time, you might well come up with something like 80 per cent. It is a question of whether you think the problem is big enough now that you will solve it now. You won't need so much protection later, but right now you do, and you cannot ignore today's problem.

In the ACPM's view, there are too many people on GIS and therefore we do support an improvement in the basic level of adequacy with a flexible means of providing for that.

Mr. Peterson: Through GIS or what?

Mr. Carlton: No. Where you go through a flexible means of private sector provision to the adequacy level.

Mr. Peterson: It's not going to solve the problem tomorrow for the retired poor. The only way to do that fast is with GIS.

Mr. Carlton: Or Gains, or both. I think we accept that and we believe that is the only feasible way of resolving the question right now.

Mr. Mackenzie: You accept that the fact that 53 per cent of people may be getting some form of GIS or Gains is an indication that the level of adequacy is not there?

Mr. Carlton: It is not there now, but I say it is a moving target, and I believe the 53 per cent figure will be reducing. The question is, will it reduce fast enough?

Mr. Peterson: One of the things we have to watch is that we don't use an elephant gun to kill a mouse in this committee. I want your advice on the extent of the problem, both now and however far you are prepared to think into the future.

Mr. Carlton: Our view is that a major expansion of CPP or OAS is not needed at this time because, having done so, you are stuck with it for ever. Therefore, it is appropriate to solve today's problems by supplementation to some extent through Gains or GIS. But the longer-term problem--and that is why we feel you can take 20 to 30 years to solve it--is best resolved through increased private plan coverage.

Mr. Peterson: One final question. You believe we must legislate a floor--that is your official position--and allow people to opt in, work out their own (inaudible) once they get in, but within a specified time period. The OMA's position is--and a number of other financial groups are saying so too--it should be voluntary. They really don't want very many changes to the grand scheme. Their suggestion is a voluntary system whereby, if the employee opts in with, say, two per cent contribution, he forces his employer to opt in. So it is an employee choice voluntary system. It is kind of weird, but it satisfies some of the (inaudible). Do you think that is sensible and workable, or do you think we have to mandate a benefit level?

Ms. Vincent: I would like to point out that without any type of mandating we do have a voluntary system at the moment, aside from the Canada pension plan. Many people, as you say, are covered by pension plans, RRSPs, deferred profit sharing plans, and savings plans. I would think that number is increasing significantly. Some of the people, naturally, the elderly poor

right now, are perhaps that way because they are not collecting CPP. They were (inaudible) in that part of the system. They were not in the work force.

Even without mandating, I think we should look at the very positive side of coverage. I think it is quite high and there are different programs. We do not have a pension industry, we have different combinations of ways that employers and employees work out retirement vehicles. I do not believe--this is a personal belief--that mandating is necessary. I believe we are moving--pensions are quite new in Canada, and I think the idea of mandating would be, as you say, an overreaction.

Mr. Peterson: You disagree with Mr. French then?

Ms. Vincent: (Inaudible) personally.

Mr. French: I would say there is a certain diversity of opinion there, Mr. Chairman, which reflects the variety of views in the private sector and which accounts in part for the difficulties I hear the committee is having to wrestle with.

There is one clarification I would just like to add, although it may not be necessary. There was some conversation about the acceptance by the ACPM of the extent of the need for GIS support for those presently retired Canadians. We accept the statistic. We don't applaud it; we deplore it. I think our best evidence of that is that all our members who are employers are fund sponsors. We feel that our funds are moving to ensure that future generations of retirees need less and less GIS support and ultimately will be self-sufficient in their retirement.

Mr. Peterson: I am sure one of my colleagues will ask your position on indexing.

Mr. Chairman: Well, Mr. Brandt (inaudible) intelligent questions. I am sure he will.

Mr. Brandt: You wanted me to ask that, did you? Can I ask my questions first and then I will get to indexing?

Mr. Chairman, I wanted to get back to the concerns expressed by Mr. Riddell. But before I do, I wonder, as an industry that employs a large number of part-time people--I imagine this applies to Mr. French in particular--have you come to grips with the question of the people who have now been identified as permanent part-time employees?

I ask that question specifically to attempt to ascertain if you have come up with a number of hours of work, either per week or per year, that would qualify an individual who falls into that permanent part-time category for pension purposes? Because I believe that group is one of the ones that is probably being addressed with respect to some of the negative statistics about people who come out of the work force and have made no provision, or have no form of adequate pension within their working arrangement.

Could you perhaps comment on that, and any of the other representatives who may wish to express an opinion?

Mr. French: Mr. Chairman, as has been identified, my own company is a major employer. The industry of which I am part is a major employer, probably the most significant employer, of less than full-time people. My own company and our parent companies, both present and past, have wrestled with this problem, and we have identified effectively three kinds of employees.

There is the regular full-time employee, and those employees receive our full benefits, including full participation in our registered pension plan, as a condition of employment, which may help to explain the bias I have expressed.

We have a second category of employees who are regular part-time employees. They work a regular schedule of hours, which does not vary. It is a minimum of 20 hours a week and short of the full-time week, which is 37.5 half hours; it can vary anywhere in between there. They are subject to the same qualification period of one year, and they are then eligible to join our registered pension plan on a voluntary basis on exactly the same basis as our full-time employees. At the later of their 25th birthday or the completion of the one year of service, if that occurs after age 25, they are required to join. This, I believe, is the major component of the regular part-time employee, as I believe the question was termed.

We have a third group of employees; I believe the more usual term is "occasional," but we happen to call them contingents.

I would like to emphasize, by the way, that our regular part-time employees have always participated in all our benefits on the same basis as the regular full-time employees. The rationale for that decision is that we recognize this continuing attachment. Their employment is as important to them, and their standard of living and that of their families more recently, as is the income of a regular full-time employee.

11:40 a.m.

Mr. Riddell: But it's a condition of employment, as you indicated before, though.

Mr. French: It is a condition of employment after age 25 and a year's service, not before. If I can just expand on that; I want to address the third group in a second.

What we are recognizing there is that under age 25 retirement is not only a long way away, it is something that does not happen to me; it is not a reality. To require participation in a pension plan, to require siphoning off some of their earnings, which that group tends to regard as too low to start with, to provide for that never never land generates more heat than it does benefit.

A significant portion of those under-25-year-olds do participate. It is interesting that that participation ratio is

climbing as early retirement is increasingly a topic of discussion. If one discusses on a back-and-forth basis with the under-25 group and gives them the full facts, that by participation under age 25 they can provide full pension at less than 65, it is quite interesting the number who will enroll.

Mr. Riddell: That is more of a priority to them than buying a new house?

Mr. French: I did not say that, no.

The priorities of an individual are endless, as all of us know. It is very attractive to do this or that. If you are looking at under 25, the fact of the matter is you are probably dealing either with a single person or a newly married couple who have not yet taken on any of the big responsibilities. Sure, they can put a buck by, but probably the big heat of accommodation protection occurs at a later stage in the family life. So, no, I have to just back off from that a bit. I hope I do not come across as nitpicking, because I do not believe I am.

Mr. Chairman: The competition might be for a new car or a boat or something like that.

Mr. French: That's right; or supporting a new girlfriend.

Back to the third group, Mr. Chairman--

Mr. Cureatz: (Inaudible).

Mr. French: I gather there is some sensitivity to (inaudible).

Mr. Chairman: I know you want to make your third point, Mr. French. With respect, Mr. Cureatz.

Mr. Brandt: I'll try to control Mr. Cureatz.

Mr. French: The third group, Mr. Chairman, are the occasionals or the contingents. We have historically regarded these, from management's point of view, as being essentially short term. If you speak to them, most of them will say: "We're only here for a short time. We are students. We are here for Christmas," or whatever.

But there is a real change going on in society which we have recognized. More and more of these people, if you talk to them--we have service recognition for these people; as you give them their 10-year pin, it is a little difficult to accept that they are only here for a short time. We are recognizing that, within the occasionals, changes in society are isolating another group of continuing people who are not there on a regular basis; their hours fluctuate from week to week or from season to season.

We are looking at the possibility of providing some scheme whereby they can provide for their own retirement which would be on a partnership basis. In 1976, we introduced membership for them in our profit sharing, which is an auxiliary scheme, so that they

can, if they are committed to providing for their own retirement, now participate. It is interesting to see how many of these people with very fluctuating attachment to the work force do contribute.

Mr. Brandt: There is a great deal of fluidity, I would imagine, between those three categories. From a business administrative standpoint, if legislation established 1,000 hours a year as the criterion for qualification for pension purposes, I am wondering if it would be easier for business to respond to a 20-hour-a-week kind of regulation, or would 1,000 hours a year be somewhat simpler? Or does it matter?

I am concerned a little bit about the fact that you would probably have a number of transfers within the three groups. The administrative nightmare could be something that would concern you. If not, I would like you to say that. If it does concern you, I would like you to give us some indication of how that might best be handled from a regulation or legislative standpoint.

Mr. French: I think there are two separate issues involved there.

As a matter of personal policy, we try very strenuously to minimize transfers between the categories, because we feel that the kind of work which an employer offers an individual must be related to that person's needs.

If the principal income earner comes to you looking for work, we question the service that you are doing that individual if you offer them 12 hours' work this week with some hope for next week. You have to offer that person some kind of a relationship, some kind of a commitment on your part that will enable that individual to support his or her responsibilities. So we try to minimize the transfers.

Moving to the second point, which would be easier to administer, I would prefer to answer the question, which would be more realistic. Going back to the concept of an ongoing commitment to work, we would prefer to see some legislation, if there has to be legislation, which would identify an ongoing commitment in terms of pay period, which may or may not be a week--regularity of work.

Mr. Brandt: Could you give some indication of the percentage of your employees, a ball-park number in the second category, that take advantage of the opportunity to enroll in a pension plan, where it is a voluntary enrolment if I understood you correctly?

Mr. French: We are talking of the occasionals?

Mr. Brandt: No. I am talking about the regular part-time. Are they required after a year?

Mr. French: Yes, sir.

Mr. Brandt: Is it available, then, for the occasionals? Maybe I missed that point when you discussed it.

Mr. French: Our registered pension plan, as such, is not available for the occasionals. What we do have is a profit-sharing plan which has a contributory base, plus a company contribution on a profit-sharing basis. That is optional and is available to all employees.

Enrolment within the company exceeds 90 per cent of eligible employees. Enrolment on the part of the occasionals is approximately 80 per cent.

Mr. Chairman: What is the criterion for eligibility on the part of the occasionals?

Mr. French: It is that they should have accumulated 1,000 hours of employment, with no break in that employment period of three months or more. We have that flexibility going back to this concept of the lack of permanent commitment to work, which we recognize.

Mr. Brandt: On another point, to pursue what Mr. Riddell was talking about a little earlier: We are looking at the possibility of a doubling of the benefits under the CPP, which effectively will result in a quadrupling or more of the cost of that particular plan.

My concern is that there would be a tremendous number of casualties, not only if you went for the expanded plan but also in terms of the financial requirements of the plan; some time in the mid-1980s to the early part of the 1990s, if our information is correct, you would have to double the contributions from employers and employees into the plan, which I think will catch a lot of people. I do not think we should skirt the issue.

I think Mr. Riddell was absolutely correct: There are a number of people who are on the fringe, small businesses and a number of individuals, who simply are not going to be able to withstand that kind of extraction out of their paycheque in terms of total dollars. Which leads me to believe that there is a value in looking very seriously at some form of voluntary plan that would assist to increase the benefits as opposed to the mandatory kind of scheme that is being proposed by some.

There is one question that was not addressed in that conversation; that is, the rather substantial amount of capital that a doubling or quadrupling of the CPP would generate and where that capital goes to. I just want your response on whether you felt that leaving that money in the private sector to generate wealth outside of government control has an appeal to you; if so, I would like your views on that. Or whether you have any concerns with respect to the many billions of dollars that would be generated in an expanded plan going into the CPP and then ultimately back to the provincial governments for use in whatever way they determine to be in the best interests of the people of that particular province.

11:50 a.m.

Mr. Carlton: The size of the CPP fund itself has a lot to do with that question, because it doesn't necessarily generate a large fund; it will do if you phase the contributions in sooner rather than later, because the contributions will come in ahead of the benefits going out. So it is going to be very dependent on the timing of the contribution increases to the size of the CPP fund.

The bigger the CPP fund gets, the more concerned I am about its being invested successfully in the private sector, on two counts. The bigger it is, the more it can effect the markets themselves and come to dominate the markets. Also, the more problem there would be if it were used in a political way as the Caisse de Dépôt tends to be right now.

I think our position, generally speaking, is that if the CPP runs on a pretty close to a pay-as-you-go basis and thus has a fairly small fund, we would prefer to see it invested in the private sector by an independent board or boards rather than being lent to the province for unspecified purposes. We believe that can be done with a part or even all of the CPP fund. But I think we would be more concerned about that if the fund became a very large fund.

Mr. Brandt: Do you agree with the concern I have expressed with respect to those that will fall by the wayside and will be statistical casualties? I think this is what Mr. Riddell was getting at in his statement about fringe operations. I know the argument probably will be made by some that if they are that fringe they should not be in business; I find that a very callous kind of an approach. But if there are fringe operations that would be damaged by this, do you think there will be larger numbers, smaller numbers? What would your opinion be on that? I realize it would be a guesstimate on anybody's part, but the fact of the matter is that, without any change, without any increase in benefit, we are looking at general a doubling of the CPP just to retain what we have now.

Mr. Carlton: This is pure guesswork, and others may have different views from mine. I would go back to a point that I made earlier, that so long as it is telegraphed sufficiently in advance and it is known sufficiently in advance what the numbers actually will be then most companies, even small ones, would be able to adjust their operations with a higher cost.

What kills you is uncertainty and things suddenly happening. If you know that in three years' time your contribution rate is going from 3.6 to 3.8 and then it is going to four and it is going up by 0.02 every single year for the next 20 years or whatever it happens to be, that is something you can handle. What you cannot handle is if it goes from 3.6 to six per cent overnight.

Mr. Brandt: And that may well be the case.

Mr. Carlton: It doesn't need to be the case, because the CPP is highly predictable.

Interjection.

Mr. Brandt: It may well be the case, because it depends on how quickly you respond to the need to put additional money into the fund. What date have you got in mind for doubling it? Over what period of time? You have never articulated a position with respect to that.

Mr. Chairman: Who are you looking at, Mr. Brandt?

Mr. Brandt: I am looking at the gentleman who interjected, at Ross.

Mr. Mackenzie: I think you would probably start immediately (inaudible)

Mr. Chairman: Let me identify for the record that Mr. Mackenzie has been the culprit in this case.

Mr. Brandt: No. It was Mr. McClellan who interjected in the first instance.

Mr. Mackenzie: I have been amazed at this coalition between Jack and Mr. Brandt, the right of both parties.

Mr. Brandt: I think the point has been well made that a phasing-in is far more beneficial and can be responded to in a somewhat better way by business than an immediate increase of a substantial amount of money.

Mr. McClellan: Nobody is disagreeing with you. That is the only point I wanted to make, in case you want to put words in my mouth.

Mr. Brandt: I would not even suggest that.

Mr. Riddell: The only difference between Andy and I is that I have some money in the pot, being a small businessman.

Mr. Brandt: I have too.

Mr. Riddell: Then we know what we are talking about.

Mr. Chairman: We don't want to put any words in anybody's mouth or improve the vocabulary around here.

Mr. Brandt: I would never stoop to those steps, Mr. Chairman.

Mr. Chairman: Anybody else want to get in the foray?

Mr. Williams: In the report, it indicated that, with regard to the PURS program, it should be implemented over a period of time, but no later than within three years. I cannot recall that the report spelled out particularly why there should be that time period of up to three years, but I presume that would be one of the major reasons--would it?--that, while it could be phased in over a relatively short time, it would still put everybody on notice, so to speak, and give them an opportunity to adjust accordingly. I presume that would be the main reason.

Mr. Carlton: I am sure that was their reason, and I am sure that also has something to do with their recommendations on the timing for the CPP increases. If you noticed, they did not recommend that the CPP increase until after the PURS program had started. So there was not a double whammy happening at the same time.

Mr. Chairman: I wonder if I could have a supplementary, Mr. Brandt?

Mr. Brandt: I have not asked my question on indexing.

Mr. Chairman: No, I notice that. I will not anticipate your question.

We have been talking about the little businessman, and I think we are all concerned about the little businessman. Now can we talk about the little employee of the little businessman for a moment? Because this is an area I do not know much about in terms of what his movements are throughout his working lifetime.

Have we a more quickly moving target when we are talking about the employee of a small businessman who may be making smaller wages and does not have the union representation or the job security? Is that target group more mobile? If it is, it may reflect on the magnitude of that particular problem, if you understand the point I am getting at.

If you want to help that group, in terms of pensions, is the perceived problem greater than the real problem, in that, that group is a moving group so they are continually bettering themselves by getting into better jobs, maybe more secure jobs, with better wages, pension plans and so on?

Mr. French: Mr. Chairman, I would think that, as an association, we are not qualified in two ways: We tend to represent larger corporations and we do have pension plans. On the other hand, I come from an industry where a turnover of 20 per cent is not a matter of great pride but is a fact of the industry among the bigger corporations. I would hope the smaller people do not have more turnover than that.

Mr. Chairman: Are you finished, Mr. Brandt, apart from the question of indexing?

Mr. Brandt: On behalf of Mr. Peterson, I should address this question. I will try to remember your exact words. The question of indexing, of course, is one that has concerned us. Have you formulated any plans with respect to responding to the indexing question? What are your feelings on that? Is it affordable?

Mr. French: Have we formulated any plans? Yes, we have plans. We have a plan which we are implementing. I say "we" as a private fund sponsor. It is important in this consideration of what is a vital subject--there is no question about that--to remember there is a surprising amount of activity in hand on the

part of the private sector plans.

I recognize it is ad hoc in most cases and therefore tends not to meet what I understand to be the pensioner's prime need, that is, for some predictability. They need to know what provision they are going to have. The average private sector fund sponsor is aware of that.

But he is also aware of two other constraints; that is, he needs some certainty in his own costs, in the plan's costs, and we need some protection against uncontrolled fluctuation. I would see a growing evolution towards a continuation of present adjustments and, I would hope, personally, some move towards more systematic commitment.

12 noon

It is an awesome thing that a fund sponsor undertakes. For the sake of present retirees you can jeopardize the viability of your own plan and even the viability of your own corporation, which is the ultimate guarantee of your plan. So there is also an awareness of another factor.

The real challenge with inflation is that as a society we have to get on top of it. If we are to get on top of it, all groups within society have to buckle their belts. It is unconscionable to suggest that only retirees should buckle their belts, but I feel they have to share it.

Mr. Brandt: There was a very frightening statement made by one of our speakers yesterday to the effect that, when people in the labour force are having difficulty, as it were, indexing their pay to keep up with inflation, it is almost impossible to consider any method, other than to find a way to control inflation, whereby those people who are in the retired sector would be able to get that kind of guarantee of income level.

What formula are you hoping to use with what you are proposing to do? Do you have any kind of a formula with respect to the indexing question? What are you attaching it to?

Mr. French: One of our big concerns, of course--and I am speaking personally now--in assessing what is an appropriate adjustment is to come up with a reasonable index. We have some real limitations as to the appropriateness of the consumer price index. We badly need an additional or more appropriate index. However, we do not have one; so we relate our present action to the CPI. We have a commitment to adjust for a portion of that CPI up to a maximum adjustment.

Mr. Peterson: You would go for a legislated formula, though? This is a very critical question to ask. Should this question be left to the voluntary, ad hoc benevolence of an employer, or should we be searching for a formula? The Board of Trade has one. A variety of people have a variety of formulas. Should we have legislated minimum protection against inflation?

Mr. French: Speaking personally, I believe some form of

legislation is going to be essential to ensure protection.

Mr. Peterson: Tell us what you could live with. Representing major employers with major plans and managing those plans, what could you live with and not scare the hell out of you?

Mr. French: It is impossible for the association to take any kind of stand on that because of differences of plans, differences in the location of members and differences in maturity of plans.

Mr. Peterson: You would be terribly constructive to us if you could, because you might end up with a law you do not like. This is an opportunity for you.

Mr. Williams: It is not very realistic if you give us your off-the-top figures.

Mr. Peterson: Mr. Williams, I say with great respect that we are going to be equally unrealistic trying to come up with a plan if we do not have help from the experts regarding what they can live with. It is great fooling with the philosophy of this stuff, but when we get down to the shortstroke--

Mr. Williams: You are asking a lot of witnesses to come up with specifics in these. I think you are putting them in an untenable position.

Mr. Chairman: Mr. French has stated he cannot speak on behalf of his association in regard to this matter. If Mr. French wishes to contribute something on a personal basis, then we can put that to him. If he wants to take the same position, then go ahead.

Mr. French: I desperately wish to take the same position, but it is not constructive. I believe that, in coming up with a formula, the degree of protection which can reasonably be offered to retirees at this time has to be related to the CPI because we do not have another index. I would hope that would not permanently defer the generation of some form of index.

On that I think there is another issue. The index which applies to retirees varies, as best I can assess it, through the stages of retirement. I believe that to be a realistic statement which members of the committee have probably witnessed in their own observations of (inaudible). So we are looking at a portion of an index, and I believe it is not realistic, recognizing the pensioner's big need, as I hear it, for predictability. "Tell us how much we are going to get," they say, to put some form of a cap on it.

Mr. Peterson: Do you have a view on this, actuarially speaking?

Mr. Carlton: Only as an actuary, not as representing either my firm or my clients or the ACPM. I happen to believe there is an additional rate of return generated in an inflationary environment. It doesn't come out nice and smooth, but it does come

out sooner or later if funds are reasonably, or even on an average basis, managed in the capital markets. I believe it's equitable to take some portion of that excess return and apply it to the pensioners, rather than treating it entirely arbitrarily, as can now be done.

Mr. Peterson: Lowering contribution rates to employers, as it were.

Mr. Carlton: Not necessarily. It happens very infrequently that they lower contribution rates.

Mr. Peterson: Is it a reasonable thing to legislate? Can we draft that into a statute?

Mr. Carlton: Again, I stress that, speaking personally, I believe it can be done, yes.

Mr. Brandt: Would it also be reasonable to legislate some form of return based on the invested capital within the fund, such as has already been brought in in Saskatchewan where they have targeted an arbitrary figure? I think, had the legislation been in place over the last five years, it would have returned a minimum interest of between six and about seven and a half per cent--those are ball-park numbers. Do you think that could be done as well with the attempt to use that money against a form of indexing?

Mr. Carlton: Possibly there is a misunderstanding of what Saskatchewan has done there. They have legislated a minimum form of interest on the employee contributions accumulating before retirement. It has no connection with any kind of post-retirement index. It is only on refunds of contributions before retirement.

Mr. Brandt: Oh, I see.

Mr. Carlton: I think, though, just to go a little further, if such a legislative action were to be taken, the rate of return that was used in the formula would have to be on what is known as risk-free investments, not the fund's actual performance.

I don't believe it's appropriate to constrict the management of the fund, because you may want to manage the fund very aggressively or you may want to manage it very conservatively. What the employee is looking for is something predictable, and all the employer is looking for is something he can get if he chooses to invest that way, but that does not force him to invest that way, and does not take away his very laudable attempt to achieve higher returns commensurate with a degree of risk he can take.

I believe, if there were such a formula, it should be based on the risk-free return, which is essentially the Treasury bill rate.

Mr. Peterson: Mr. Castonguay's point has been addressed, I guess. His point was that you are going to drive all the fund managers into a conservative (inaudible) point.

Mr. Mackenzie: There are three areas of curiosity, I guess. I share the chairman's problem occasionally of how to be sure just exactly what you are willing to accept in terms of legislation or mandating, and I get the distinct impression that the bottom line is as little as possible. I think that is backed up even by your opening statement where you called for the practical realities, which were that you need time to make any adjustments or reforms.

Now apart from coverage, on which there may be some differences or disagreements, there are a number of fairly obvious areas of concerns--the portability, the vesting and so on.

Unless I misunderstand your role, I don't know a better group than yours, the Association of Canadian Pension Management, and the fact that you deal with many big companies, to ask the question I guess I've asked others and I am curious about, which is why did we have to come up with select committees and hearings to start suggesting a mandating or regulations? Why was the industry not able to respond itself? I asked an employee of the insurance institute just yesterday and was told it is surprising what you will do when there is a gun to your head. I just find that very very difficult to cope with.

Mr. Chairman: Especially when we don't have the right to bear arms.

12:10 p.m.

Mr. Mackenzie: It would seem to me the organization's would have been to rally the troops and say there are some problems in the private sector; we had better correct some of these problems.

Ms. Vincent: I think the pension plans in the private sector are improving constantly. I think they might not be moving as quickly as some governments might like. But those areas of reciprocal agreements, of portability, are being developed. Most major employers are giving ad hoc increases, and CPP and OAS are already indexed; so, therefore, the ad hoc increases sometimes are extremely efficient. The level of coverage is very high for a voluntary system. I do not think we have been standing still at all. I think we have been moving ahead very much and groups like ours constantly say they will accept--

Mr. Mackenzie: You are telling me there are no real problems and leave it to (inaudible).

Ms. Vincent: I am not saying there is no real problems. Any system that is just growing is going to have adjustments that have to be made from time to time. But I feel they are being made. David was saying they have moved to five-year vesting. I think that lots of companies have made improvements and I think most of them are trying. It certainly--

Mr. Mackenzie: We have a long way to go for five-year vesting generally.

Ms. Vincent: Well, at certain times certain industries can do more than others; so we do not necessarily move together. But sometimes when it is very difficult--if manufacturing is having some sort of problems generally, they might not move as quickly, for example, as the banking community if they are not having the same types of problems.

We do not have a pension industry. We have many plans negotiated by employers and employees and set up for lots of good reasons. So it is not realistic to say that we can all sort of move together when we are not starting from the same place.

Some of our members have two retired employees for every working employee, just for an example. When you talk about indexing a plan like that, you are talking about a great deal. Who is going to pay for it? They would not have a lot of extra money. They are all different, because they are not the same. But I would reject any suggestion that we have been standing still waiting for something to happen. I do not think that is the case at all.

Mr. Mackenzie: Let me go to my third point that I was curious about, because it does relate to vesting, to participation in decision-making and so on. That is the question of whether or not your contributions are deferred wages. We raised this with another group yesterday, and you, I think, are only the second witness before us that has raised some question about whether or not it is deferred wages.

As I said yesterday, I was a little surprised and pleased to see the CMA come down without any equivocation that it was deferred wages that we are dealing with. Are there some people in the industry who still do not see pension contributions as deferred wages?

Ms. Vincent: I think it is both. I think they are both deferred wages and many other things. It depends on the company. Most employer groups, I believe, remain very concerned about their retired employees. If they feel that way, it really is not deferred wages or they would have said, "Here is your money and go." They keep involved and they do post-retirement adjustments.

Mr. Mackenzie: If you accept the argument that it is not deferred wages, you start a hell of a way back in terms of what are employees' rights.

Ms. Vincent: This is my personal view. I think it is a little bit of both. I do not think that, as an association, we could poll every member and have them agree that it is completely deferred wages. What do you think, Mr. French?

Mr. French: Mr. Chairman, I have to support that. I recognize the difficulty of the question, but I think there are a number of factors. I also sympathize with the committee, because some of our answers have not been as totally clear-cut as they might be. But I think there are a number of valid reasons for this.

I had some difficulty with a question about what were the

compelling forces. You have to recognize that this total pension question is relatively new in Canadian society. In the pension situation there are some very new problems, with which we are wrestling. The first of these is the need of indexing, because inflation itself is a relatively recent thing.

One reason we have not developed possibly as uniformly as this member of the committee might have liked is that we are dealing with human beings, with all their diversity; you are dealing with human problems. This may be one of the strengths of the private sector, while also it gives us some of the problems.

Mr. Mackenzie: I think, though, that one of the problems you have is that you sit in, for example, at a set of negotiations with one of the major companies, and the argument the companies is going to make is, "You can either have X cents an hour, or you can change this benefit, or we will put so much into the pension plan." So you are obviously dealing with deferred wages, even in their perception. That is why I was sort of pleased to finally hear the statement, as it clearly came from the Canadian Manufacturers' Association, that it is deferred wages.

I think that has a fair bearing on what you do, or what kind of employee participation there is, or what you do in terms of vesting and the right to vesting.

Mr. French: I would unhesitatingly support the concept that it is deferred compensation, but I think that you have to apply it and you have to interpret it a little.

Even the proponents of this concept of deferred compensation have to be very careful, I submit, because if it is deferred compensation, then that closes the case for any consideration of pre-retirement indexing. And I think it challenges any case for post-retirement indexing. If it is deferred compensation, the argument is, the relationship is closed; and I cannot support that, as I have shown.

So yes, I say it has strong elements of deferred compensation in that it is not a grant. I deplore that kind of thing. But it it needs some interpretation.

Mr. Chairman: It struck me that it is somewhat like beauty. It is all in the eye of the beholder.

I can see, as I indicated earlier, that the perception may be one thing but the reality may be another, when you are dealing with the concept.

Mr. Mackenzie: You also said, in your statement concerning the organization, the first concern, I forget how you stated it now, but it had to do with how we deal with poverty or low-income people.

Were you making that statement strictly in relation to older pensioners now who are on inadequate incomes, or was there a broader context to your comment?

Mr. French: I think the statement was, "Steps must be taken immediately to alleviate poverty among today's elderly."

We would not limit the application of that.

Mr. Mackenzie: I know we are a little bit far afield now, because pensioners are only part of that problem, the people that are on inadequate pensions, (inaudible) OAS or CPP, the supplement they get.

Does your organization have any suggestions in that particular area? Do you see that being solved in any way by a restructured savings or pension plan, or what?

Ms. Vincent: The people who are now retired?

Mr. Mackenzie: I was first asking if you were just dealing with them; and I gather that, no, your context was broader, so I guess I have put in my question in a broader context.

Has that been a concern of your organization, and have you got any suggestions for us? It is admittedly a little far afield.

Ms. Vincent: Certainly for today's problem, with retired people, we have OAS, GIS, Gains.

Mr. Mackenzie: So you see the approach just as an enrichment, if we have a problem there--some kind of supplementary program?

Ms. Vincent: I cannot think of another way to do it.

Mr. Carlton: I think that it would be through Gains or GIS.

There are a couple of points really. I do not think that we can suggest a particular level which we think is appropriate; but there are a couple of aspects of the design of, in the first case, Gains.

The Gains program is such that if the company does give the employee a dollar, it immediately reduces the Gains payout by a dollar, and that is clearly a negative force on any kind of post-retirement indexing. I would like to see some prorating as is done with GIS, where it is 50 cents on the dollar.

That is one point. The other point is that it is worth considering whether OAS should be grossed up for tax purposes, thereby generating some higher tax revenue, and maybe if necessary using that either for higher GIS or for a higher OAS.

I think the problem mainly lies amongst the single as opposed to the married; and to get at that, you basically have to work on GIS and OAS and not CPP.

12:20 p.m.

Mr. Mackenzie: So you are saying that one of the

potential answers might be some enrichment of the OAS program, which is really a general revenue area?

Mr. Carlton: Self-financing through grossing it up for tax purposes.

Mr. Peterson: That's 150% gross-up for a tax bracket over \$30,000?

Mr. Carlton: I prefer the 150 per cent gross-up. But that is a fairly novel idea, and I don't think the membership really fully necessarily understands that.

Mr. McClellan: The CMA (inaudible) \$30,000 tax bracket. They reject that totally.

Mr. Chairman: I think they have got a lot of support too, Mr. McClellan.

Mr. Mackenzie: The majority of this committee, I think, Mr. Chairman.

Interjections.

Mr. Chairman: Taxing back. Anyone else?

You know, I recall when there was a surtax on your income tax as a premium for that, and I thought I was contributing to that old age pension. Now there is total confiscation advocated at \$30,000, and I do not know what \$30,000 is going to do in a few years' time. Speaking personally, I question very much that particular recommendation.

Mr. Peterson: Ethically speaking, there is no doubt that the confiscation by the province of the CPP funds, which will not be used to pay pensions--

Mr. Chairman: I will not--

Mr. Peterson: It is not a bit different.

Mr. Chairman: I do not want to get dragged into a debate on taxation.

Mr. Peterson: For the sake of consistency, I thought I would bring this up.

Mr. Chairman: You may find more concurrence than opposition.

Thank you very much for appearing today. It has been very stimulating and helpful to the committee in its deliberations, and we appreciate your taking the time.

The committee now stands adjourned until 2 o'clock.

The committee recessed at 12:22 p.m.

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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

THURSDAY, AUGUST 20, 1981

Afternoon sitting



SELECT COMMITTEE ON PENSIONS

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VICE-CHAIRMAN: Williams, J. (Oriole PC)

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Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk: White, G.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Board of Trade of Metropolitan Toronto:

Coward, L. E., Director, William M. Mercer Limited

Edwards, S. E., Partner, Fraser and Beatty

Gilmour, D. W., Assistant General Manager and Secretary

McCarthy, R. B., Consultant, Wood Gundy Limited

Shell, A. J., Group Actuary, Crown Life Insurance Co. Ltd.

Sprawson, B. G., Chairman, Pension Policy Committee; Peat, Marwick
and Partners

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, August 20, 1981

The committee resumed at 2:10 p.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: Gentlemen, I see a quorum. We are fortunate this afternoon in having with us the Board of Trade of Metropolitan Toronto. I do not know who has been delegated as a spokesman but maybe he could identify himself if that is the proper gender to use and introduce the delegation.

Mr. Edwards: Mr. Chairman, members of the committee, thank you very much. My name is Stan Edwards. I am president of the Board of Trade of Metropolitan Toronto, and I have with me a number of members of the pension policy committee of the board of trade who will elaborate on certain aspects of the board of trade's position if that is the wish of the committee.

I would like to introduce those members of our pension policy committee who are present here. The chairman of that committee is Laurence Coward, who sits on my left; I will turn the presentation over to him in just a few moments. Next to him is Arnold Shell, who is a member of the committee; he is a group actuary with Crown Life Insurance Company Limited. Next to him is Barry Sprawson, partner with Peat Marwick and Partners. Since we only had four chairs here, we had to ask some of the members to sit a little further back.

Mr. Chairman: Second string.

Mr. Edwards: Yes. They will be ready to rush in with assistance as required: Mr. J. E. Tremble, company benefits manager of the T. Eaton Company; Mr. Bruce McCarthy, consultant, Wood Gundy Limited. I believe those are all the members of our committee who are present. There are several other members who were not able to come.

Mr. Chairman: You have overwhelmed us already, Mr. Edwards.

Mr. Edwards: Thank you, Mr. Chairman. I happen to have been a member of the committee which developed the position paper of the board of trade on pensions. Our initial brief was prepared and submitted to the royal commission on pensions in December 1978. We have developed a new position paper and a new and expanded position paper which was issued in January 1981 just before the royal commission report was published.

Before turning the matter over to Mr. Coward, I would just like to make one or two comments about the general context in which we approached the matter. This is referred to under background factors in our presentation.

The printed brief which was sent to the committee includes as an appendix the entire position paper issued in January. We spent a lot of time on it. We think it was very carefully worked out. It is summarized and brought up to date in the six-page summary at the beginning of the folder.

But we start off by saying we believe that pensions are very important in our society. They should be improved and gaps filled in to the extent possible. But pensions are by nature a long term problem. They must be kept in the context of the economy as a whole in relation to the producing power of the economy and other demands on the economy as well as demographic projections of future population. If the costs are such as to overload the economy, then obviously attempts to improve pensions in the long run will be self-defeating.

Therefore, we have that constraint. We do not think, as many people seem to do, that pensions should be looked at by themselves as an isolated matter, but they must be kept in context and within the ability of the country and the economy to provide them over an extended term.

With that brief general observation, I would like to turn the presentation over to Laurence Coward, the chairman of our pension policy committee.

Mr. Coward: Thank you, ladies and gentlemen. The first paper that the board of trade prepared was in January 1978 and went to the Haley royal commission. Then, as Mr. Edwards mentioned, we had another detailed paper in January 1981. We now have produced a six-page submission today which encompasses some comments on the new proposals in the royal commission report and has regard for what came out at the national pension conference.

Moreover, we have concentrated on the things we think Ontario ought to do. We have not concentrated on old age security and guaranteed income supplement, since they are really matters under federal jurisdiction.

We firmly believe that the pension system in Canada can and should be improved, and this applies to both public and private plans. But we are very concerned about the economic situation of the country, which is worse even than when we prepared our previous papers, with huge government deficits, a weak dollar, high inflation, high interest rates and high unemployment.

Accordingly, our proposals have two main thrusts.

First, we believe that government must take action to bring all senior residents of Ontario above the Statistics Canada poverty line. Second, we need to strengthen the pension benefits acts so that private plans can play a bigger part and fulfil the reasonable expectations of employees from that system.

With your permission, I should like to run rather quickly through the points in our six-page brief.

Mr. Williams: Could I just interrupt for a second, Mr. Chairman? I do not know if the other members are in the same situation. I just have a four-page document.

Interjection: Exhibit 55.

Mr. Williams: I have got number 69. I have got the big brief.

Mr. Coward: I am referring to the beginning of this document.

Mr. Williams: That is an update on the original.

Interjections.

Mr. Williams: Oh, the first six pages. I am sorry.

Mr. Coward: The first point we wish to make is the matter of uniformity, because variations in pension legislation from province to province place a very real and unnecessary burden on employers. The majority of employers of any size operate in more than one province, and it is extremely wasteful and vexatious to have to comply with different requirements.

Ontario should seek uniformity in the legislation on pensions and make reciprocal agreements as to pension supervision with other provinces.

I say this particularly because Saskatchewan and Manitoba have broken ranks in the last year or two. I understand the Canadian Association of Pension Supervisory Authorities, known as CAPSA, has been meeting. I am sincerely hoping that they will make recommendations for uniform legislation and that they will be adopted by the various governments so that we may have uniformity on the essentials.

The second point is the matter of coverage and adequacy of pensions. We have examined this matter and come to a conclusion that coverage is not as serious a problem as it is made out to be. I will not say much more, because Mr. Shell will make a presentation on the coverage matter in a few minutes.

But we do agree that there are certain gaps, and we recommend that the Ontario Gains program be expanded where necessary to ensure that all Ontario residents have incomes above an appropriate poverty line, perhaps the Statistics Canada poverty line, after taking account, of course, of any changes in the federal programs of old age security and guaranteed income supplement.

As for the Canada pension plan benefits, we believe that the pension from the CPP should continue to be 25 per cent of the adjusted average earnings; in other words, no major change in that level.

A general increase in Canada pension plan benefits would provide the greatest subsidies to those with the largest incomes,

and the contributions, which must rise in any event, would rise much sooner and end up much higher. We do not believe it would be in the interests of the country or Ontario for that to happen.

2:20 p.m.

But there are three changes in the Canada pension plan which we endorse.

First, the year's maximum pensionable earnings (YMPE) should be increased more rapidly towards the average industrial wage. It is quite clear that the intention to catch up to the average industrial wage has been frustrated, because the average industrial wage has gone up faster than was anticipated when the recent amendments were made.

Second, the dropout years for persons who leave the work force to care for young children should be increased so as to be the same as those under the Quebec pension plan. It is a matter of regret to me that Ontario vetoed that proposal on the ground that it would cost money. It will cost money, of course, but I think in order to improve the position of women and to have uniformity with Quebec and on general grounds that should be supported.

Another measure to the advantage of women is that the spouse's benefit might be raised from 60 per cent to 75 per cent of the contributor's pension where a nonworking spouse survives. It seems a little anomalous to us that a widow who has not been in the work force should receive quite a bit less than if she had been in the work force.

I might mention at this point that a questionnaire was put out just about a year ago and answered by 483 employers. It showed that 65 per cent opposed any enlargement of the Canada and Quebec pension plans, 24 per cent supported it and, I think, 21 per cent had no opinion.

But when the question was asked as to whether they would support legislation to strengthen private pension plans, we found 80 per cent of employers supported that measure and only 11 per cent were opposed. When I have finished my remarks, Mr. Sprawson will comment further and elaborate on that, with your permission.

Funding of the Canada pension plan: We believe the Canada pension plan should not be funded on an actuarial basis as if it were an employer pension plan. The circumstances are really quite different.

We agree with the royal commission that it should be operated on a pay-as-you-go approach with a fund of some reasonable size to provide for contingencies and to smooth out some variations in demand. I think the royal commission suggested two years' outgo as an appropriate fund ultimately, and we are agreeable to that suggestion.

However, we certainly believe the real and future costs of the plan should be subject to continuous study and disclosure and that before any amendments are made, the actuaries in the federal

department of insurance, all the actuaries of Ontario, should make studies as to the future commitments and the condition of that fund.

Mandatory pension plans: There have been several suggestions for mandatory plans, including one by the Canadian life insurance association and PURS from the Ontario royal commission. For a variety of practical and policy reasons, we do not believe the government should require the mandatory establishment of pension plans for employees or mandatory savings or mandatory RRSPs for individuals. We do, of course, have a national earnings-related mandatory pension system; that is, the Canada and Quebec pension plans. We don't need another mandatory earnings-related national system on top.

The disadvantages of mandatory plans seem to us very serious. There would, of course, be the addition of bureaucracy and the cost of administration to the government, and the additional cost of compliance to employers, particularly small employers.

A very particular difficulty is that under Canada's constitution the provinces have jurisdiction over pension plans, with a few exceptions, so that a mandatory system would require provincial legislation. It is highly improbable that you would have the agreement of all provinces to enact the same legislation at about the same time and, therefore, if some provinces had a mandatory system, you would still require increases in other programs. It is difficult to imagine how this could be a satisfactory solution.

More than that, the mandatory plans would take so many years to mature that they might provide useful pensions next century but they certainly would not this century. The small pensions that would be produced would largely be lost because of the guaranteed income supplement. Those with low earnings would, therefore, gain little or nothing from PURS or any other mandatory plan system.

What is even worse is that a province that adopted a mandatory pension plan would, in effect, be subsidizing those that did not, because it would relieve the GIS for residents of that province, but it would have to pay its share of taxes and support GIS in other provinces.

On vesting and portability: We do not see that it would be possible to make pensions portable in the sense that employees would carry their years of service from one employer to another in calculating their pension from the second employer. In that sense, portability is not feasible except within groups of employers who have much the same type of plan and much the same kind of work-force characteristics.

But we can obtain something that is nearly as good if we have earlier locking-in of pensions under three conditions, and we strongly recommend these:

1. Vesting should be required under some such formula as when the employee's age plus service equals or exceeds 45,

provided he has one year of service.

2. Any increases in pensions to retired employees should be extended to the vested rights; that is, any increase in immediate pensions should be granted also to deferred pensions in order to equalize them as far as inflation protection is concerned.

3. The value of the deferred pension should be at least as great as the value of the employee's accumulated contributions plus interest at a specified minimum rate.

These recommendations are in accordance with what has been done in Saskatchewan and with the recommendations of the royal commission. Those two go a little further than we have gone, but we support the movement.

I may say that Ontario was the first province to bring in required vesting and it put out a green paper in 1973 proposing that the vesting be improved so that it would start at age 40 with five years of service. But I am afraid the other provinces had other views and nothing was done.

The survey I mentioned showed that 70 per cent of employers would support the proposals for earlier vesting that were in the Lazard report. That report said, for example, that vesting might be at age 30 and two years of service.

There is really no doubt in our minds that we are ready for earlier vesting and locking-in on those lines.

Surviving spouse benefits: We suggest that all pension plans be required to provide 50 per cent pensions to spouses on the death of the employee, unless the requirement is waived by the spouse.

We suggest that if the plan now provides single life pensions, it should be permissible to reduce the amount of those pensions on an actuarial basis so as to provide for the 50 per cent to the spouse. In other words, the pension would be of the same value but, instead of being life only, it would continue after the death of the employee in the amount of 50 per cent to the spouse.

We also support the suggestion of the royal commission for revising the Family Law Reform Act to deal with pensions when there is divorce or breakup of a marriage.

On indexing of pension plans, we believe there should be no provision in the public service, nor any requirement in the private sector for full indexing of pensions in relation to the cost of living. We point out that inflation has become embedded in our economy at such a high rate that some provision must be made for it by employers.

A provision could be made for indexing of pensions under a formula which limits the future pension increases in relation to the capacity to pay, for example, by using interest earnings in excess of some realistic real rate of return. We favour that

action, which in fact has been taken by a good number of employers.

2:30 p.m.

The board of trade believes the inflation tax credit proposed by the royal commission would be far too costly to be considered at present. The costs would be cumulative, they would increase rapidly over the years so long as inflation persisted and, furthermore, the proposed inflation tax credit covers not only pension income, but income from RRSPs and from a great many sources. It would also discourage employers from doing anything themselves if the government were to take over that whole problem.

Two more items briefly: We do not see the need for legislation to abolish mandatory retirement, and we do not see the need for legislation to require the use of unisex mortality tables.

Those are my comments on the brief. Before I leave you, I would like to distribute some views that have been expressed by some members of this committee on the 163 recommendations of the Royal Commission on the Status of Pensions in Ontario. I have to explain that we had four of the members of the committee who went through them and expressed their approval, disapproval or no comment on each of the 163 recommendations. We have those views summarized.

Of necessity in describing what is in the recommendations, we give them the number, but we have had to greatly abbreviate the description. But I hope that, with a copy of the report--if anyone does not have them, I could give you plenty more--you will be able to follow what we have done.

Mr. Chairman: Maybe we could distribute those now.

Mr. Coward: Yes. May I have those distributed now? Thank you. It is of interest to note we agreed with 111 out of 163, we disagreed unanimously with six and we were divided in our opinion on 46.

Mr. Mackenzie: Was PURS one of the disagreements?

Mr. Coward: No. I think we had three to one against; the inflation tax credit is one, and there is disagreement that the Pension Commission of Ontario should designate funding methods and establish actuarial assumptions.

Mr. Mackenzie: Before we leave the general presentation, Mr. Chairman, I wonder if we could also get an observation from the board of trade people as to their perception on pension contributions as to whether it is deferred income.

Mr. Coward: I do not believe it could be considered exclusively as deferred income. If you adopt that philosophy, it is very difficult for me to see how you could make adjustments because of inflation to pensions of people who retired many years ago.

That would be going back and raising their pay

retroactively. It is difficult for me to see how you could give bigger benefits to somebody who leaves a spouse than to somebody who does not, because you would be giving different pay according to one's marital status 20 or 30 years later. There is a good deal of truth in the view that I could not accept it without reservation.

Mr. Chairman: It is my observation so far in these hearings, for what it is worth, that, while generally the concept of pensions as deferred income is accepted, it is more of a treatment of pension benefits as deferred income on a selective basis. In other words, the perception might be there but in practice it may be a mixed bag.

Mr. Mackenzie: That may be part of our problem.

Mr. Chairman: That is right. Anyway, I am sure we will be getting into some questioning on that, and I do not want you to interrupt the presentation, Mr. Mackenzie, please.

Mr. Mackenzie: I just was, once again, pleased to hear that we accepted (inaudible) from the CMA hearing a couple of days ago.

Mr. Coward: There is a large element of deferred pay in pensions; but it has to contain other elements, otherwise some of the things we do, which I think we all accept as being good, would be impossible.

May I now, Mr. Chairman, ask Mr. Shell to make his remarks on the coverage situation?

Mr. Cureatz: (Inaudible) interpretation on the opening remarks (inaudible).

Mr. Chairman: I am wondering if we should deal with the presentation and then get back to each of the individuals and ask questions and go from one to the other.

Mr. Shell, your name was raised yesterday in the committee, if I am not mistaken; so if you are reading our transcripts, it is not in vain. We are delighted to have you with us today. I gather that you may be appearing personally later on.

Mr. Shell: I don't think so. This is in lieu of that.

Mr. Chairman: I see.

Mr. Riddell: Maybe there are two Shells.

Mr. Chairman: It is not a shell game, Mr. Riddell.

Carry on, Mr. Shell.

Mr. Shell: We believe it is vital in considering the extent of coverage and adequacy of the current private pension system that a clear distinction be drawn between those Canadians who are now retired and those Canadians who are still wage earners

and who will retire in the future.

In some cases the economic situation of today's retired people is a cause for concern. In large part this is because they retired with no private pension plan or RRSP and with no or incomplete CPP benefits. This problem of today's aged poor is clearly a problem to be solved through government action. It is not capable of solution through the private sector. Where necessary, as has already been mentioned, we are in favour of improvements being made by the government in the GIS and Gains programs as a solution to this problem.

It is not appropriate, however, to use the plight of some of today's elderly as an argument in favour of expanding the benefit levels under government plans or in mandating private plans as they apply to today's working population. Such an argument should be advanced only if, after careful analysis, the current private arrangements are found to be reaching an inadequate proportion of the population.

It is often stated that only about 40 per cent of the labour force is covered by private pension plans and therefore something drastic needs to be done by the government to increase coverage. We agree that about 40 per cent of the total labour force is covered, but this is a highly misleading figure. Some people say that since only 40 per cent of the labour force is covered by private pension plans, the private pension industry is inadequate. This is like saying that since only 50 per cent of the people wear glasses the optical industry is inadequate.

The point is that there are many people for whom both glasses and private pensions are unnecessary. Indeed, there is a significant portion of the labour force for whom a private pension is not only unnecessary but would be redundant. These workers, along with their employers, have therefore voluntarily chosen in many cases not to be in a pension plan or an RRSP.

The workers for whom a pension plan is unnecessary or redundant are defined by their age and income characteristics. We feel the appropriate target group to consider in analysing the extent of coverage is those wage earners between the ages of 25 and 65 who earn wages between the average industrial wage and twice the average industrial wage. Those workers under the age of 25 in many cases have priorities other than saving for retirement. One of these important priorities may be saving for a home.

The reason for excluding from the target group those workers who earn less than the average industrial wage is found in the net replacement ratio concept used extensively in the royal commission report. The net replacement ratio is the ratio of net after-tax income after retirement to net after-tax income before retirement.

Our studies have shown--and this is confirmed by the royal commission figures--that a married person earning the average industrial wage can expect a net replacement ratio of between 70 and 80 per cent from the current government benefits alone. For married people below the average industrial wage, the net replacement ratio from current government sources alone approaches

and sometimes even exceeds 100 per cent.

That is what we mean when we say that for many people earning less than the average industrial wage, a private pension would be redundant. It is illogical to use the fact that many of them are not covered as an argument against the current private pension system.

The net replacement ratios from government sources are somewhat lower for single people. This is an area in which we feel an adjustment in the GIS or Gains benefits may be considered. It is, however, important to point out that as of January 1, 1981, each retired married couple over 65 in Ontario was guaranteed an annual income of over \$10,000, and each retired single person over 65 was guaranteed an income of almost \$5,500. As we will see a little later, these figures compare quite favourably with the Statistics Canada poverty level. We do not feel that the size of these floor levels are generally known to the public.

2:40 p.m.

As I mentioned above, we agree that about 40 per cent of the total labour force is covered by private pension plans. The White study on coverage and the background papers to the royal commission report analysed coverage by age and concluded that about 56 per cent of those between the ages of 25 and 65 were covered. We also agree with this figure.

For the reasons outlined above, however, we feel that it is important to complete the exercise and look at that group of workers who are both between the ages of 25 and 65 and who earn wages between the average industrial wage and twice the average industrial wage.

Our study indicates that the coverage of this properly defined target group is around 77 per cent, or about three out of four when RRSPs are included. That is, about three out of four wage earners in the target group are members of a private pension plan or an RRSP. In some cases, the conditions under which benefits become payable under these plans may be in need of improvement and we have made recommendations in that regard. But the point is that the private pension system is being used by three out of four people in the target group.

But what of the one out of four not using the private pension system? Is it appropriate for government programs to be expanded, or private plans made mandatory on their account? We think it is not. Many of the uncovered are uncovered because they have not yet met eligibility requirements, have elected not to join, are members of a profit-sharing plan or have private savings, including especially their own homes. They all have the opportunity to participate in the system, because RRSPs are available to all wage earners.

We feel that, once the government has made available to everybody the opportunity to save for retirement through the use of pension plans or RRSPs, it is not appropriate to force Canadians to use one of these approaches to savings for retirement

as opposed to all the other options.

It is right, as a humane country, that the federal government provide floor benefits through the OAS, GIS and CPP system, and that the provinces provide supplements, but beyond that we are better served by a system which promotes flexible decision-making and individual choice.

Mr. Sprawson: Mr. Chairman, we have had a number of words and figures, and we have made some recommendations. We, in a few minutes, are going to illustrate, we hope graphically, what we have in mind. We have brought along an overhead projector, and I am going to ask Arnold to go up to the front to project these figures.

Mr. Shell has expanded upon the subject of coverage and adequacy of pensions in Canada and, in so doing, pointed out the distinction between those who have retired already and what needs to be done for them, and those who will retire in the future and how we believe they are now covered with supplemental pensions through attachment to the labour force.

We believe that equally important is the distinction between those who are attached to the work force and those who are not, or who are but only for temporary periods.

It is clear that employees and employers, with the help of the provincial government, can solve the problems of coverage, vesting, indexing and portability in private pensions. No major increase in the CPP, GIS or Gains is, we believe, needed for those people who are now in the work force. Employers obviously cannot do anything for those who do not attach themselves to the labour force, and it is in this area that the provincial or the federal government must act.

We believe it would be helpful to this discussion if we distributed a fact sheet. I think you have all got a fact sheet in front of you. It looks something like this.

We have illustrated our understanding of the federal income security programs as of August 1981. On page one, the first two numbers have relevance. The year's maximum pensionable earnings for the CPP is \$14,700, and the average industrial wage at May 1981 is \$17,243.

On the second page, we have illustrated the annual guaranteed level of benefit, including old age security and the guaranteed income supplement in each of the provinces that have such supplements, in the third quarter of 1981. You will notice that in Ontario the figure now is \$5,753.52 single and \$10,847.04 married.

At the bottom we have shown the Department of National Health and Welfare and Statistics Canada poverty lines as we understand them at this point. I think it is important that we have this fact sheet at our fingertips when we look at these other illustrations.

First, with respect to those people who attach themselves to the work force and are in the Canada pension plan, we believe the following changes should be made: The YMPE should be increased more rapidly to the annual industrial wage. You will notice from that one fact sheet the YMPE is now \$14,700. We believe it should be brought up to the \$17,243 level much more quickly. It is being increased at 12.5 per cent a year, and we are running inflation now in excess of that.

We also believe the dropout years for persons who leave the work force to care for children should be expanded, and the surviving spouse's benefit should be raised from 60 per cent to 75 per cent.

For persons who do not attach themselves to the work force and are not married to spouses in the work force, we believe in Ontario only minor adjustments in the guaranteed income supplement and Gains are required.

In fact, based on the published Health and Welfare poverty line--this was the line used at the national pension conference earlier this year in Ottawa--the annual guaranteed level of income needed to bring a single pensioner up to the required line in August 1981 is about \$6.50 a month or \$77 a year. That is to bring it from \$5,753 to \$5,830.

Married couples are already entitled to the \$10,847 in Ontario, which is \$2,392 over Health and Welfare's stated poverty line. To provide more would indicate better treatment to pensioners than to other less fortunate members of society who need assistance from government.

To illustrate all this graphically, I would like to show you a number of graphs that illustrate precisely how we are now treating our pensioners in August 1981 in this country, how our current system will mature into the future and what will happen if the CPP is doubled.

The first slide indicates what has happened to income tax deductions for pensioners over 10 years in the pension benefits. At the top, we illustrate the pensions that existed as government-supported programs nationally in December 1971 and August 1981. You will notice that the pension benefits have increased by about three times.

Underneath that, we show the income tax exemptions and deductions that retired individuals are eligible to use, and they have gone from a 1971 total of approximately \$3,100 for a married couple to \$15,733 in 1981. That means the first \$15,700 of income received by a newly retired couple is nontaxed in Ontario, or will be this year. We don't think that can be ignored in looking at what these benefits are providing to the people who receive pensions. We compare net take-home pay prior to retirement with net take-home pay after retirement from various sources.

In the next graph--let me explain this--on the vertical axis we have a net replacement ratio, and on the horizontal axis we have the final salary of somebody. So that an individual earning

the average industrial wage, which is about \$17,000, who retired today with only OAS as a source, would have about 35 per cent replacement of their income.

2:50 p.m.

In addition to OAS, there is also the Canada pension plan benefit, and we would like to show you in the next block what happens for a single employee. When you add the OAS and the CPP for the national average industrial wage for a single employee you will replace, in his take-home pay, at about the 45 per cent level.

The third block shows you what happens when we add in GIS. When you add in OAS, GIS, and Gains--and this is assuming no private pension at all--at the national average industrial wage you are replacing about 60 per cent. At \$10,000 a year, I think it is 80 per cent. That is the income that somebody would receive at retirement. You notice that it stays fairly high right up to \$45,000.

In the next illustration, it shows what happens when you double CPP, on a net after-tax basis. You are now up to, at the national average industrial wage, almost 80 per cent, I think, coming from government programs.

All these figures ignore the other provincial benefits. There is the \$500 tax credit, and of course there are subsidies for OHIP and transportation and so on.

Anyway, this illustrates that there is a good deal of replacement of income in retirement for those people who have absolutely no private pensions.

What we have done, on top of this, is to superimpose the typical private pension plan, and we have used the federal civil service or a good private bank pension plan with one of the good private employers.

And that is what happens. It is a two per cent final earnings plan. Doubling the CPP benefits still leaves quite a large corridor for private sector pension plans. And because of our income tax system above the \$15,000, the benefit comes down the way it does there.

Of course, if you add in married employee benefits, all these figures go over 100 per cent. We just thought we would deal today with just the single employee.

In summary, we believe Ontario employees and employers, with legislative enabling assistance from the provincial government, can solve the needed improvements in supplemental registered pension plans as they relate to coverage, adequacy, vesting, indexing and portability.

We believe the Ontario government should improve the Gains program slightly for single pensioners, and should agree to three amendments in the CPP. The first would be to accelerate the YMPE to the AIW (average industrial wage); the second is to improve the

dropout provisions; the third is to improve provision for surviving spouses from 60 per cent to 75 per cent. We do not think there is a need to increase the absolute benefits under the CPP, nor the contribution rates.

Mr. Chairman: Thank you very much.

Was there any other person that--?

Mr. Coward: I wanted to ask if the other members of the committee would wish to make any remarks at this point.

Mr. Chairman: Just because they are in the back benches, it does not mean that they are not welcome to come forward.

We have some members who are anxious to ask questions. Mr. Epp, you had a question.

Mr. Epp: Thank you, Mr. Chairman.

I am not sure who should answer; but I gather that, based on both the oral and written submissions, that you are opposed to the expansion of the CPP because you think there are enough benefits--at least on your visual submission here--for Ontarians and Canadians as opposed to being opposed to more funds from the private sector going into these plans and then having them reinvested. I presume you are really opposed to it on the basis you think there are enough benefits there and that is it.

Mr. Sprawson: I would say we have the secondary concern also that, if the contribution rates were doubled, it would create a cash flow of approximately \$4.5 billion which could continue to be used, I suppose, to fund some deficits in some provinces or it could be used as an investment in certain areas of the provinces the way the Quebec pension plan funds are now invested. That would be of some major concern to us also.

Mr. Mackenzie: Do you disagree with the provincial use of funds up until now, the investments?

Mr. Epp: Funding the building of hospitals, I suppose. Do you think some of those funds should have gone into the private sector for investment the way Quebec does?

Mr. Coward: That is not something that concerns me, but I do not think it was in any way desirable or necessary to build up funds of upwards of \$20 billion in the Canada pension plan fund. The original versions of the Canada pension plan did not provide for a large fund. We now have a much larger fund than exists in practically any other country with a comparable social security system. The purpose of the fund is not very obvious unless it was to make the deal more acceptable to certain provinces.

Mr. Epp: If I remember correctly, I think that \$28 billion or \$29 billion has been paid into the fund and about \$18 billion or \$19 billion of that has been borrowed back by the provinces, including \$9 billion by Ontario.

If I read you gentlemen correctly, you think the province should pay back those funds to the pension fund so that we can get the benefits for which people paid into the CPP originally.

Mr. Coward: The province has promised to pay back those funds if called upon to do so. They are in provincial securities that have a definite term. It may be inconvenient that the province would have to raise money as happens when provincial bonds mature. There is nothing unusual in this. The province has that legal obligation, and I can imagine the provincial Treasurer might not be enthusiastic about having to find that kind of money.

Mr. Epp: No, he may not.

You were referring at one point to the number of different corporations you represent. Could you describe to the committee the kinds of companies you are speaking on behalf of today, maybe the size, the number and so forth? We have had different organizations before us and it might be helpful.

Mr. Edwards: I will ask Mr. Douglas Gilmour, who is on the staff of the board of trade, to comment on that.

Mr. Gilmour: Mr. Chairman, in a recent survey we did--

Mr. Chairman: Why don't you come over to the microphone so we can record and inscribe your words for posterity?

Mr. Gilmour: In a recent survey we did on energy matters, we specifically asked the members of the board, of which there are approximately 16,000, to indicate the size of their companies. In the results it was indicated that approximately one third had employees in excess of 100, one third had employees between 10 and 100 and a balance of a third had employees under 10. We feel we represent pretty generally all sizes of businesses in the Metropolitan Toronto area.

3 p.m.

Mr. Edwards: Mr. Chairman, since my microphone is open, perhaps I could make a comment on a question which Mr. Epp raised originally relating to the proposal for a substantial increase in the Canada pension plan.

I think the figures that Mr. Sprawson has developed bring out the question of whether there is a real need for such an increase. I think our conclusion was that, subject to filling certain gaps and further provision for widows and the other points we have mentioned, there is no real basic or strong need for people who will be retiring in the future--although maybe in the case of some people who retired in the past who do not have the full funding of the CPP--but that is one side of the coin.

The other side of the coin is that we think that any very substantial increase in expenditure of this nature in the current state of our economy would not be responsible, because we would have to keep the distribution of funds for consumption to

pensioners in balance with the funds available to other members of society and in balance with the ability of the economy to provide goods and services. In other words, there are many people who are under the age of 65 who are probably not as well off as people over 65 even under present arrangements. We have only a certain amount of pie, so to speak, to divide.

It would be very nice to distribute a lot of money to everyone, but the problem is you can only distribute what you have, or what the system will produce. If you attempt to distribute more, as we have seen very clearly, the result is simply exorbitant inflation. I would predict that, if we were to make very substantial increases of the kind that have been suggested, we would have much more rampant inflation than we have even seen to date.

Mr. Chairman: And then this committee's job would be even more onerous, because I guess a part of the problem is because of inflation that we are discussing some of the issues we are today in terms of pensions.

Mr. Epp, did you have a further question?

Mr. Epp: Just one question, and I am not sure whether these gentlemen would like to answer or whether it should be directed to Mr. Bentley.

Somebody mentioned earlier that if PURS were adopted--and this is the mandate as recommended by Haley--we, in turn, would be subsidizing GIS in other provinces. I am wondering whether this question had been addressed by the Haley commission, and if so, what attitude they took to it, whether they had anticipated something of this nature.

Mr. Chairman: Could anyone respond to that? It was raised by, I think, one of the trades. Was it Mr. Coward?

Mr. Coward: (Inaudible) this point, but I do not recollect that this was addressed in the royal commission report.

Mr. Epp: Because it is a very important aspect of it. If we are going to subsidize the other provinces, in addition to our equalization payments, through having that kind of a plan, then that in turn means hundreds of dollars.

Mr. Coward: It is a point that bothers me. I do not think it was discussed in the Haley report, but it seems quite clear that that is, in effect, what would happen. Ontario would still have to pay its share of general taxation and the other provinces would be drawing more than Ontario.

Mr. Epp: And what you are saying is that would not be taken into consideration in the formula for Ontario paying its general taxation, its federal taxes?

Mr. Coward: I just do not know what other arrangements can be made, but if things stay as they are, that is, unless some special arrangement is made, the net effect is that Ontario would

subsidize provinces that do not have a PURS plan.

Mr. Epp: I suppose one of the things that Haley--and I am talking about the commission when I am talking about Haley--must have anticipated is that if they were going into PURS maybe a similar kind of program would be adopted by other provinces in order to make it somewhat portable.

Mr. Coward: Yes, that was their hope.

Mr. Epp: If it was not, then that raises another problem.

Mr. Coward: If I might go back to an earlier question, I have a further objection to a major increase in the Canada pension plan which is simply that it gives the money to the wrong people. The people who are in need today are those who have small incomes, who will have small pensions or nothing in the Canada pension plan. Those are the ones that we need to help.

If you double the Canada pension plan benefits, it does not help somebody who is getting nothing from the plan, and it does very little for those who get little. It would give, as we mentioned earlier, very large subsidies to those who are at the top of the income scale already.

Mr. Chairman: Of course, pension reform generally would not be helping those people, would it? Those who are nearly retired or retired.

Mr. Coward: What we are saying is that you should concentrate your available resources on GIS and old age security improvements, which go to everybody.

Mr. Chairman: I appreciate they are the mechanisms to address that problem of persons who are retired. But what I am pointing out is that it is not only the enrichment of the Canada pension plan that would have no impact or very little impact on those who are retired, or nearly retired. But it is also the pension plans in the private sector that may be improved but would not have any effect on that same target group.

Mr. Coward: That is correct.

Mr. Chairman: So what I am saying is that argument applies right across the board.

Mr. Mackenzie: I hear this argument about targeting in, and yet I hear an argument, as I heard a few moments ago, about not being concerned with because of the dangers of trying to get into any kind of income redistribution schemes.

Unless I have been misreading the figures I have seen for the last few years, one of the problems we have is that certainly the bottom 20 per cent--and I believe it applies to the bottom 40 per cent of our people--have less disposable income now than they did X years ago. So our problems do not seem to be because we have been redistributing income because we sure as hell have not been giving it to the people who need it.

Mr. Sprawson: Yes, from that point you need to deal with those people. You do not need to adjust the Canada pension plan for everybody that is in the work force. You have to deal with those people who have already retired and they are in need--and we admit there are some--and those people who come up to retirement and they have only light attachment to the labour force. The mechanism is not the CPP.

Mr. Mackenzie: The mechanism obviously has not been OAS or GIS either, and yet there is, whether we like it or not, a welfare connotation to this kind of payment.

Mr. Chairman: Well, I guess because it is a welfare.

Mr. Mackenzie: And they have not done the job of redistribution that we are talking about.

Mr. Peterson: That is a very subjective judgement--what is welfare and what is not welfare. There is a lot of stuff today that 20 years ago would have been considered welfare, and it is just as a matter of right today. There is substantial disagreement as to whether GIS is welfare or not. It is not helpful to discuss it in those terms, in my judgement.

Mr. Williams: I have just three or four questions dealing with different aspects of your presentation.

On the front part of your presentation suggesting there are three ways of improving the CPP, I must admit it is not clear in my mind as to what formula is actually used to develop the YMPE as contrasted with the average industrial wage. Why is it always behind the average industrial wage? What formula is used there that makes it, in your judgement, inferior and lacking?

Mr. Coward: The YMPE has fallen behind for historical reasons. It was originally established at \$5,000, which was not too far from the average industrial wage, and was going to rise at two per cent per annum. When inflation began to set in, it became clear this was an inadequate rate of increase. The YMPE is now rising at 12.5 per cent per annum.

3:10 p.m.

The provision is that, when it catches up to the average industrial wage, or rather to a modified average industrial wage--there is a rather complicated formula behind this--it will then follow that average industrial wage. We are supposed to be in a catch-up period where it is rising at 12.5 per cent per annum, which was thought to be higher than the rate of increase in the average industrial wage and was to catch up to that point and then go along with the average industrial wage.

What has happened is inflation has got even higher and is now greater than the rate of increase in the YMPE; so it is not catching up or only catching up very slowly indeed. We believe we should get back to the original purpose of the Canada pension plan, which was to provide pensions up to the average industrial

wage, based on 25 per cent of your adjusted average.

Mr. Williams: That 12.5 per cent factor you refer to, which was set and determined at the time not taking into account inflation to the extent that it has taken over the country, would have covered what time period for the catch-up?

Mr. Coward: The 12.5 per cent is actually in the legislation and it was, I believe, about 1973 or 1974 that the federal government made that amendment. At that time, it looked as if the YMPE would catch up to the average industrial wage by about 1984 or thereabouts.

This has not happened because inflation has accelerated. We are saying that things have got out of adjustment and we believe we should move more rapidly to the ultimate position which, I think, nearly everyone believes the Canada pension plan should be in.

Mr. Williams: This 12.5 per cent figure is basically the formula that you use, is it?

Mr. Coward: The 12.5 per cent is written into the law.

Mr. Williams: Right.

Mr. Coward: The long-term objective is to have the ceiling of the Canada pension plan equal to the average industrial wage. We were in a catch-up period. They did not want to jump it violently all in one year, although that would have been possible.

Mr. Williams: Just because it is the earning ceiling that is used in the plan, reference is made to the fact it is determined, according to the report in the definition section, according to a formula based on average wage levels. That formula is what I really did not understand.

Mr. Coward: I am not really sure I understand it. It is set out in the actuarial report on the Canada pension plan and it is merely that there is a certain time lag, and there is a certain average for the previous three years. It means you approximate to the average industrial wage.

Mr. Williams: The second point you address yourselves to is that the drop-out years for persons who leave the work force to care for young children should be increased so as to be the same as in the Quebec pension plan. I was looking at your fact sheet here but I do not think I saw the differential there. If it is in there, could you elaborate for the purposes of the record just what the differential is and try to offer the remedy?

Mr. Coward: Your pension is based on average earnings. If you have a period of zero earnings, it obviously brings your average down. Therefore, there is a dropout provision which says that you may ignore 15 per cent of your years of contributions so that, if you had a few years of zero earnings, you can ignore them. It helps your average.

The proposal that was presented some years ago and which Quebec adopted was that additional years could be ignored if one of the spouses was not earning because they were at home looking after young children. There was no specific--I do not think there was a limit on the number of such years.

Mr. Peterson: Was it not seven?

Mr. Coward: Maybe it was. There must have been something like that. There were additional years that could be ignored if you were caring for young children. Quite clearly, this would assist the position of women since they are more likely to be the ones who give up their jobs to go home and look after the children.

Mr. Williams: On the fact sheet that you distributed to the members, exhibit 69, the first page, comparing the CPP and the QPP: A few notable variables are with regard to the death benefits, the maximum monthly spouse's pension. Under 65 is somewhat enriched for the QPP compared to CPP. On the other hand, monthly orphan's pension is substantially less in the QPP formula. Do you have any comments on those variances? Can you explain how they came about and what your views would be with regard to them?

Mr. Coward: I suppose it is a difference in philosophy between the two branches of authorities. In Quebec, you have a bigger benefit if you are a spouse and you do not have children. If you have more than, I think, four children, then you find you are worse off. The crossover point--I have no rational explanation as to why that difference arose.

There is similarly a difference in disability benefit, as you see. You are worse off in Ontario if you are disabled without children. You are better off in Ontario if you are disabled with four children or more.

Mr. Sprawson: We have suggested an improvement in the spouse's--

Mr. Williams: Yes, that is the third recommendation.

Coming to one of the other charts displayed during the presentation, the net replacement ratios for single pensioners: Are you not putting that magical situation where what you would describe as a typical private pension is able to remain more of a constant across the time frame than you would find with the other plans?

Mr. Coward: Would you like to comment on that, Mr. Sprawson?

Mr. Sprawson: I am not sure I heard the question fully. Could you repeat it?

Mr. Williams: The chart discloses that, according to your statistics, the typical private pension plan would remain more of a constant as far as the net replacement ratio is concerned, with the final salary being the variable. This would still give you a higher yield, as I read the chart. What is the

magic formula that permits a much greater constant to apply in the private pension situation than with regard to OAS, CPP and GIS, which is declining?

Mr. Sprawson: The private sector plan is usually defined in terms of a formula of two per cent final earnings, less all benefits from other sources, times years of service. We have assumed here 30 years of service of an individual with a two per cent final earnings plan. This is basically the benefit that comes out from all sources after tax and when one adds in the supplemental plan. It is just a function of the net replacement ratio, bearing in mind the tax system we have in place.

Mr. Williams: When you say it is a typical part of a pension picture, that in itself is a variable if you are classifying it as a typical--

Mr. Sprawson: That's right. All of the numbers below that top number are not influenced at all by years of service and so on. Those are the facts with respect to the income-support systems we have in Canada. We thought it would be of interest to illustrate what a career civil servant or a career employee would expect to receive. Both businesses and civil service have these final earnings pension plans, based on approximately two per cent final earnings. We thought it would be interesting just to illustrate what comes out.

3:20 p.m.

Mr. Mackenzie: That would be based on maximum payment (inaudible).

Mr. Sprawson: Maximum payment? That would be based on 30 years of service and the average of the last three or the last five, yes.

Mr. Williams: My last question relates to the six recommendations to which the board took unanimous exception in the report. I thought we should perhaps zero in on those, because there was no disagreement among any of you in regard to your opposition to those particular recommendations, looking on page three of your opinion summary of the recommendations.

Because there is no question or equivocation from your point of view with regard to those six, it might be worth having some elaboration on those particular recommendations from the board. I wonder if you could assist us in that regard.

Mr. Coward: I think it might be good if I simply read them, so you know exactly what we are talking about.

The first one is recommendation 12. The recommendation of the royal commission was that assistance to low-income persons aged 65 and over should be through money payments where feasible rather than through increased services. I think the feeling was we would be better to give both services and money. I don't know that I can elaborate on that.

Mr. Williams: Oh, I see. I assumed perhaps it was one rather than the other and you were falling on the other side. However, you are suggesting there is no reason why it could not be both.

Mr. Coward: We are suggesting that services as well as money would be appropriate.

Mr. Williams: Okay.

Mr. Coward: Number 19 is as follows: "The government of Ontario should seek amendments to the Income Tax Act to tax back at 100 per cent payments of OAS for those persons having a net taxable income in the year as defined under the Income Tax Act, of \$30,000, with suitable notch provisions so that the resulting tax backs will not decrease taxable income below \$30,000."

The view of the members of our committee towards this was that it was undesirable to have 100 per cent tax back of the present OAS.

Mr. Williams: Were they thinking of something in between or none at all?

Mr. Coward: The OAS benefit is a uniform, universal benefit that goes to everyone right across the country rich and poor. I think universal benefits are desirable in many ways. I happen to be a One Canada supporter. I believe that the high-income people will have paid in taxation, before they retire, 10, 20, 100 times as much towards the social security system in Canada as the others.

I see no philosophical or practical objection to having a universal benefit such as OAS paid to everyone. They will have more than 50 per cent tax back in any event. The contribution of the higher-income people through their taxes has been vastly more than the rest. I do not see that they should be hit at both ends.

Mr. Peterson: Didn't you say you were in favour--I may be confused--of 150 per cent gross-up? I think you did. So you want to go halfway there.

Mr. Coward: We made a proposal in our previous report that OAS be amalgamated with GIS or the other way around and that with a vastly increased OAS we would have a much higher taxback.

Mr. Peterson: So that is your position? No taxback?

Mr. Coward: We have not discussed that. Quite frankly, I took the view that the GIS and OAS are more a federal responsibility and, with all respect to this committee, you will find it easier to deal with things that are clearly under Ontario's jurisdiction.

Mr. Peterson: Our problem, Mr. Coward, is that everybody who comes before this committee says we must insist on universality, uniformity of legislation. We obviously have to lead the way and this is obviously going to be part of the

federal-provincial negotiations. There is no easy demarcation line.

Mr. Coward: No, I realize that.

Mr. Peterson: Just so I understand, are you saying no taxback or are you saying taxback?

Mr. Chairman: I guess there is a taxback if you are taxable in any event--

Mr. Peterson: No. But they are saying 150 per cent gross-up, Jim, in the original proposal.

Mr. Chairman: Yes, but this is in direct response to the recommendations of the royal commission.

Mr. Coward: The January report suggests that a guaranteed income supplement be added to OAS and made part of OAS. If that were done, I think it is necessary to have a higher taxback--maybe 100 per cent at the top--than we have now.

Mr. Peterson: (Inaudible) of the income tested for the combination GIS over there.

Mr. Edwards: That proposal was made, as Mr. Coward has said, with respect to the OAS and the GIS, and it is something that could only be implemented as a package by the federal government.

Under that proposal, it's true that, if you were in the top tax bracket, there would be 100 per cent taxback. That would take effect at something over \$100,000 and it would be escalating; so there would be a very large percentage of tax back at levels lower than that.

I think this most recent review of the royal commission report related to a suggestion that this be done under the present system without an overall revision of the present system of OAS and GIS.

Mr. Peterson: I have another question. May I have a supplementary, John? It relates to your first question.

Mr. Williams: Ask your supplementary.

Mr. Peterson: Everyone in management comes into this committee saying we must target our resources. To solve the problems of low-income retirees today, we must use the GIS basically or OAS and GIS in some combination. Everybody says that. Mostly those are the same groups that would probably come in and make deputations to the select committee, saying: "The federal deficit is too high. Gee, what are you guys doing? You are driving us crazy. You are causing inflation and everything else."

Do you have a view of what the increased level of GIS should be in order to solve the problem of the current retiree? And if you have a view, have you costed that out as to how much additional money is going to come out of the federal Treasury? As

I understand it, old age security is now costing the federal Treasury about \$6 billion. That is a hell of a high percentage of the federal budget of \$50 billion or \$60 billion.

Mr. Sprawson: Mr. Peterson, I think we did illustrate this afternoon the numbers you are looking for.

Mr. Peterson: I must have missed them; I am sorry. Can you show me?

Mr. Sprawson: If you look at the fact sheet we distributed, on the second page we show that in the third quarter of 1981--the bottom third of the page--Ontario has a minimum guaranteed level of retirement income per single person of \$5,753.52, per couple of \$10,847.

The current poverty level estimated by the Department of National Health and Welfare for the national pension conference, and supported by Statistics Canada, indicates \$5,830 for a single pensioner and \$8,455 for a married pensioner.

We concluded from that that, if the target line was that poverty level, then we only needed a supplement of \$77 a year, or \$6.50 a month. We are not suggesting that is appropriate but, if that was the target line, that is the amount; and that a couple is already over that by \$2,300 a year, the difference between \$10,847 and \$8,455.

We are saying that not very much is required to bring it up to that level. There was a figure that I think you and I heard earlier in the year, that every \$100 a month increase in basic social security costs \$2 billion.

Mr. Peterson: It is a lot of money.

Mr. Sprawson: A hundred dollars a month would be \$2 billion out of the federal treasury.

We could work that out on the basis of \$6 a month.

Mr. Peterson: From your point of view, that is manageable immediately?

Mr. Williams: Are you satisfied?

Mr. Peterson: Sure, yes.

Mr. Williams: Let us move on to recommendation 55, also with OAS, but tying it in with existing private plans.

Mr. Coward: Recommendation 55 is a very long and complicated one that prevents pension plans from integrating in the way that they now do with respect to any improvements in old age security or in the Canada pension plan, or changes in the YMPE after it has reached the average industrial wage, or what is called nonproportionate methods of benefit offset integration.

I believe that our view is simply that was much too sweeping

a restriction on pension plans endeavouring to make up from social security to what they consider the desirable level.

A pension plan may not go backwards. If somebody in a pension plan has accumulated a pension of, for the sake of argument, \$500 a month, there is no way that, at the end of next year, the pension will be down to \$490 a month.

Mr. Williams: Is that not what the recommendation essentially is addressing itself to, to ensure that the existing pension plan would not be reduced in benefits by virtue of OAS being enriched in some way?

Mr. Coward: Not as I read it. I think it would go further than that and prevent--

Mr. Williams: I am looking at (a) in particular, prohibition for existing plans reduction in benefits by reference to any increase in the level of old age security payments.

Mr. Coward: Well, Mr. Williams, I think perhaps some of us could go along with one or two of these five, but not all of them.

I am not sure, but I presume that if we say "yes" we are agreeing to all of them. If we say "no," we may be agreeing with one or two and disagreeing with the rest.

Mr. Williams: I guess what you have singled out is subclause (a), is it?

Mr. Coward: No, I mentioned that merely to identify--

Mr. Williams: Do I take it, then, nevertheless, your committee was unanimously opposed to all facets of the recommendation?

Mr. Coward: No. To some facets.

Mr. Williams: I see. I took it to be--

Mr. Coward: I personally would be upset at item (c), which prohibits what are called nonproportionate methods of benefit offset integration. First of all, when you are designing plans, it is sometimes very difficult to say whether you are nonproportionate or proportionate. I think that this is unduly restrictive.

At any rate, that was the voting on that one.

Mr. Williams: I guess probably (a) was the more straightforward of the recommendations and easier to grapple with; I just assumed that everyone was opposed to that particular subrecommendation in the recommendations.

So, in fact, there is not total disagreement with regard to the complexities of that recommendation in toto?

Mr. Coward: I can only speak for myself. I do not disagree with it in toto, but I certainly disagree with parts of it.

Mr. Williams: It would probably take quite a while to go through each one in depth; so I do not suggest you do that. I just want to get an understanding of these six in particular that I thought you were totally opposed to.

Mr. Coward: Well, 59 and 60 are somewhat related. Fifty-nine says the Pension Commission of Ontario should designate the planned types for each of the permitted funding methods as appropriate. Sixty says the Pension Commission of Ontario should establish without delay guidelines with a choice of actuarial assumptions by the actuary directed to one or two or three things.

The committee supported recommendation 63, which suggests that the Canadian Institute of Actuaries in collaboration with the Canadian Institute of Chartered Accountants should try to develop reasonable actuarial standards. We supported that. But we did not support the proposition of 59 and 60 which does not refer to discussions with the profession. It just says the pension commission shall lay down the law on these actuarial matters.

Mr. Williams: Sixty-three was really a recommendation that they should develop information in layman's language that would be for disclosure purposes to the employees.

Mr. Coward: Yes.

Mr. Williams: But 59 and 60 deal more with the limitations or constraints as you see it that would be put on the role of the actuaries in developing some of these plans.

Mr. Coward: Yes.

Mr. Williams: You feel that would be a retrograde step?

Mr. Coward: Yes. I feel it would be much better if the pension commission in conjunction with the Canadian Institute of Actuaries developed suitable guidelines. I think they should not mandate actuarial methods and assumptions. There are unusual circumstances when an unusual method is appropriate.

Mr. Williams: I guess you really answered the next question. I know it is outside the two you designate as being totally opposed to, but if there were some limitations or guidelines established as backup to recommendation 58, do you feel those limited choices that are recommended therein would be a realistic number of variables to be able to work with? Or would that so hamstring the actuaries in determining funding methods that it is not a realistic type of limitation to impose?

Mr. Coward: We were divided on recommendation 58. The aggregate funding method is not a bad funding method. It has been quite commonly used and is acceptable in the United States. I do not think it is quite as bad as it is made out to be.

Mr. Williams: Isn't that where they have gotten into difficulty more so in the United States than here because I guess we have tighter controls? Where too many of the private funds with the large companies are getting out of hand because they find they are getting into such a large unfunded liability position that it is threatening the very financial structure of these companies?

Because there are unlimited variables that can be used in the actuarial process, no one was able to determine what the real cost of these programs and the unfunded liability was to these companies. It starts to emerge after a period of time, but it is too late.

The program has developed well down the line and it may be four or five years before they realize the total of impact of it. Without some limited number of guidelines that could be followed it might just not contain the situation, I do not know.

3:40 p.m.

Mr. Coward: The Pension Commission of Ontario has provided that in funding methods of this type--in what they call frozen initial liability funding methods, of which this is one--provided the actuary reveals any experienced deficiency that has arisen and determines this according to normal principles, so that such experienced deficiency may be paid off over five years, if that is what the act requires, this method is acceptable. It is acceptable right now. There is the protection that the actuary is required to reveal an experienced deficiency if it exists.

Therefore, I do not think the outright ban is too appropriate. I do not think we are running any great danger with allowing this to be used in circumstances where the actuary thinks it is suitable.

I personally would much prefer to see the Canadian Institute of Actuaries establish stronger guidelines than they now have, and they have committees that are working in that direction. If we compare them with the legal profession or the Canadian Institute of Chartered Accountants, they are much older professions and they have established their guidelines and their patterns in a way we have not had time to do.

But there were valuation guidelines adopted by the Canadian Institute of Actuaries for the first time in its history this year, and there are committees working to improve them. It is a little premature for the pension commission to now impose rigid rules on that process.

Mr. Williams: That is something they should develop rather than having it imposed upon them in the fashion suggested here. Is that what you mean?

Mr. Coward: I would like to see this evolve. I have been speaking for myself. I am not sure other members of the committee, who are not all actuaries, thought on quite the same lines, but this is my interpretation.

Mr. Williams: Just this last comment, Mr. Chairman. On other days I have expressed my concern to Mr. Bentley and others about this. Again coming to the United States, when a giant corporation like Chrysler is on the brink of bankruptcy, it appears that a large element of the investor lack of confidence in them surfaces and is determined to be part of that unfunded liability under the pension program as part of the precarious position they have put themselves in financially. In such a situation you start to get concerned as to whether or not there should be some tighter control.

That seemed to have developed with very little awareness in the earlier days. Maybe to business analysts it was recognized earlier on, but the company was carrying such a huge debt load, it would obviously affect its--

Mr. Coward: Are you referring to the Canadian company?

Mr. Williams: No. I am talking about the Chrysler Corporation in the United States. That may be the extreme situation, the manner in which the funding of their pension program which developed seemed to help cause that company to get into financial difficulty.

Mr. Coward: The United States did not have any pension legislation similar to Ontario's until much more recently, and I think the Canadian plant is in better shape than the US one.

Mr. Williams: Yes. I was just using that as an example of my concern.

My understanding is there are just so many ways in which actuaries can develop their funding for the pension plans and, if they are using the same facts and figures but taking different routes, they can come up with plenty of different situations as far as the stability of the fund, cash resources and unfunded liability provisions are concerned. That makes me concern myself as to whether there should be some limitations put on the various funding methods that should be used; that is all.

Mr. Coward: We would prefer that these be developed by the profession rather than imposed by the--

Mr. Williams: I believe the actuaries are coming before us next week.

Mr. Coward: The tendency is in that direction, without any doubt.

Mr. Williams: Okay. There is just--

Mr. Coward: The last item was the inflation tax credit. Because of the cumulative nature of the payments--that is, with inflation at 10 per cent per annum, at the end of the first year you pay up 10 per cent of the pension (inaudible), and at the end of the second year it is 20 per cent, and then 30; if inflation stays high, it would grow almost without limit--it seemed to us to be completely unworkable after the first few years and far more

dangerous than the things it was supposed to cure.

Mr. Williams: So that is not really realistic from a straight fiscal point of view.

Mr. Coward: I hope we don't seem too negative, because we are in favour of some very positive steps that will help the position of women and the position of mobile employees, and will make sure that private plans comply with the expectations of the employees to a greater extent. Maybe these expectations are sometimes not totally reasonable, because employees enter into a contract and maybe expect more from it in certain circumstances than the words provide. But we are for some very positive actions, a number of which this committee could influence and which could be enacted without undue delay.

Mr. Williams: I found it interesting that the committee agreed with 111 of the 163 recommendations. That was a very strong endorsement of the report in large measure. Because there were so few that you totally disagreed with, I thought you must have very strong feelings with regard to them. Obviously you did and that is why I felt it necessary to get an elaboration on those six points.

Mr. Mackenzie: You would have to be quantitative in terms of the recommendations. There might be 100 we don't need much, that are already there. We found out with some of them that the question was why were they moved as recommendations in the first place (inaudible).

Mr. Peterson: I should say I think this is one of the most constructive briefs we have had, and I appreciate very much the way you have laid it out. It correctly addresses the problems we have to face. It is far more helpful to me than a number we have seen, and I want to thank you for that. I just want to go through a few questions I have problems with here.

You don't seem to believe that a totally portable system is possible or reasonable. That being said, I should tell you that a number of people say it is quite simple. I am talking of financial executives--my head is spinning with all these people who have come in here--but a number of financial groups and managers have come here and said it is quite simple, if we pass the law that there has to be (inaudible) and they have two or three years to do it. There are a few pricing problems or costing problems but they are easy to work out. Why is it such a problem from your point of view?

Mr. Coward: Well, if the plans are very different, I think you get rather unreasonable results. If somebody is in a very low-level, poor pension plan and transfers with 20 years of service to another company that has a very rich plan, is that new company supposed to make up 20 years of that pension?

Mr. Peterson: Well, he purchases a benefit, and that is part of the free market system. When he goes to the new company, he knows that what he is bringing with him is going to purchase so much in a new pension plan, and that's his choice.

Mr. Coward: Wouldn't it make it very difficult for a company to hire somebody who was working for a company that did not have a plan at all? They might have to make up an enormous--

Mr. Peterson: (Inaudible) purchase a certain benefit in a plan. I do not see that is so difficult. That is a function of the free market. You hire a person with all the baggage attendant thereto, or go to a company knowing what it is going to give you.

Mr. Coward: If legal obligations are imposed on employers, that will change the rules of the game, and no doubt in due course the free market will establish itself and the person who comes without a pension from his previous employer will be able to command a much lower pay when he joins the new company. If he is a union member, well, you have to pay the same, and I suppose he probably won't get the job very easily.

Mr. Peterson: Possibly.

3:50 p.m.

Mr. Coward: Portability has a number of meanings. I did try to talk about it in terms of transferring your number of years of service from one employer to another.

The other way of looking at portability is to say that you take with you the amount of pension you earned previously. If this were converted into money and transferred into a registered retirement savings plan, then you have portability in a true sense, but you do not have the feature that your future salary increases improve the service with the preceding employer. That would turn out to be a very inequitable kind of arrangement if you apply it across companies with very different types of pension plans. For that matter, if you apply it in reverse and somebody belonged to a company with a rich plan and he wants to go to a company that has a poor plan, does he lose everything if it has a poorer plan?

Mr. Peterson: First of all--

Mr. Coward: Stick to the principle; you are just transferring his years of service and the second company has a poorer plan.

Mr. Peterson: You are (inaudible) and I am not; so I don't want to get into trouble. Maybe 10 years of service in a company would buy five years of service in a new company; or conversely, five of one would buy 10 in another, depending on the valuation. You could put a number on those kinds of things.

Mr. Coward: I see. Well, that's another--

Mr. Peterson: I am not saying it's a quid pro quo; I am just saying that if we forced companies to have those kinds of transfer-in, transfer-out mechanisms--as long as you cost them in the same way you cost them out; nobody is going to get done in the middle--maybe the whole system would be self-adjusting to that extent and we would not need an arbiter or a pension commission

to--we don't need to send Wells Bentley in to give you hell.

I don't want to oversimplify this, but you are the first people who have raised this objection. Am I right?

Mr. Coward: If you are talking about somebody who goes to another company and he has had 15 years of service but he only gets credited with five, I admit that can be done. But I thought we were talking about him getting full credit for his previous service.

Mr. Peterson: No, not necessarily.

Mr. Coward: There are arrangements which you could call portability which do not achieve the full result, and I can see some of them that could be made workable.

Mr. Mackenzie: I got nothing out of the first three companies I worked with (inaudible) in one or two cases, I would love to have those now, even what I put into them credited in terms of a future pension; and I don't. I know there is a difference in them. That is one of the questions I had. I think Mr. Peterson is right. You are the first people who have questioned the idea of some form of ability to carry your benefits with you.

Mr. Coward: May I just make this point? What we have endorsed is early vesting and then some form of pension protection in the deferred period; that is, if the company can afford to give anything. Does that not come to very nearly the same thing?

Mr. Peterson: Yes, I will get to the vesting thing. There are various other points that I want to make.

Mr. Sprawson: I think Laurence has explained why he cannot fully endorse portability system guarantees, or benefits and all facets of benefits, but it would be possible to have a portability system implemented in this province that would work if you used the cash-surrender values of accrued benefits and rolled them over. But I do not think the private sector could implement such a system entirely alone. It would need the assistance of the provincial government for those people who attach themselves to the labour force for three months here, two months there, six weeks here.

Mr. Peterson: We are here to serve, Barry.

Mr. Sprawson: That's right, but the private sector cannot do it alone. They would have to have some agency to handle those funny situations where there wasn't a succeeding employer and so on.

Mr. Peterson: This brings in the pension commission in some role or other. We have had a number of discussions about whether their role is quasi-judicial or administrative-regulatory or whatever.

The vesting thing: I gather your formula is age plus

service, 45, minimum one year. Right?

Mr. Coward: We are rather influenced by Saskatchewan and the desirability for uniformity.

Mr. Peterson: We, of course, expect them to follow us when we come up with a report. You know that, Mr. Coward.

Mr. Mackenzie: We expect to do much better.

Mr. Chairman: I hope Hansard records the smiles on your faces.

Mr. Mackenzie: If once in our lives we could beat them, I would be happy.

Mr. Coward: Saskatchewan originally followed Ontario and then they got tired of waiting for an improvement in a vesting formula, so they decided they just had to go it alone.

Mr. Mackenzie: Why the 45? Why not a straight five-year or one-year or two-year vesting? It evolved from this whole argument of deferred benefits and all that, the deferred compensation argument, and I have a real problem with it.

Mr. Coward: Well, we have felt it better to have locking in going along with vesting to simply tie the thing. It is a bit messy if you have a different age and service for vesting and locking in. Undoubtedly younger people, particularly young women who leave to get married, are not interested in having \$25 a month payable 30 years from now.

From a practical point of view, I think there is less interest in pensions for people who are young, and it is really scarcely worth preserving those small amounts for very long periods of time.

Philosophically, we favour very early vesting. We don't support the deferred pay principle which implies immediate vesting, not to that degree, but we favour much earlier vesting. But I think from the practical point of view, there is not much point in generating very small deferred pensions and particularly for people who are going to leave the Canadian work force entirely. Maybe they are going to live abroad; maybe it is women getting married.

Mr. Peterson: You could have a \$25 a month--something like that.

Mr. Coward: That is another way of dealing with it: to say any pension below X dollars can be commuted.

Mr. Peterson: I have a problem with a chap who is 25 and starts to work and starting to raise a family who works for five years and moves. He doesn't hit your rule. I have a real problem with that one.

Mr. Coward: Do you think he should have his pension

preserved?

Mr. Peterson: I am not sure. I have an open mind about a lot of things, but I think he should have a vested right and I think it should probably be locked in.

Mr. Coward: I am not quite so sure. I would like to first make sure he has enough money to buy shoes for the children and to educate them and that kind of thing. A lot of these 25- or 30-year-old people with a few children really need pretty well all their resources.

Mr. Peterson: So you would keep his money for five years but when he moves you give it back to him. So he would get a lump sum.

Mr. Mackenzie: Believe it or not, in my riding there are women and men at 55, 60 and 65 who have a hell of a job in terms of whether or not they can afford to buy a pair of shoes. I can take you down to St. Matthew and (inaudible) for the last few years trying to get by on a little better than (inaudible) bucks a month with rent increases.

Mr. Peterson: But that doesn't solve the problem.

Mr. Mackenzie: All I am saying is there is a necessity at another age to buy the same pair of shoes, or whatever you want to call it, as a young person. The perception of a young person may be a little different in what he wants to put his money into, but even that is gradually changing. I am not sure it is the majority feeling now but it is something different than it was five or 10 years ago.

Mr. Sprawson: You said, "Why age 45?" I think one of the problems is that in traditional pension plans, whether they are (inaudible) benefit through the union or whether they are (inaudible) plans and so on, there is an employee contribution in the younger years and there is very little employer contribution required--usually up to, say, 45 and maybe even higher. So if you have immediate vesting and full locking-in and the employee finds out the only locking-in would apply to his own contributions, most people under 45 have a higher priority for those funds than leaving them in pensions, and therefore wouldn't want to see the locking-in; they would want access to the funds. And there isn't a real contribution from the company until maybe a little later on.

Mr. Peterson: Let me address that problem in practical terms and you tell me if I am wrong. A guy is working from 25 to 30, let us say. He is young, he is married, he is trying to feed his two kids; he is making contributions to his pension plan--probably a smaller one, but I grant you it is going to go up.

Presumably he is entitled to his own contributions. He is making his deductions now and the employer is presumably putting in something. We will have to address that problem, but let us say the employer is putting in something. There is still a deduction. That is not helping him buy shoes for his kids or milk for his kids when he is 27 years old. What it does do, when he is 30 and

terminates and goes to another job, is it gives him a lump sum of money which he goes out and buys a stereo set with.

4 p.m.

It does not address your daily cash flow problems that Mr. Coward was trying to suggest to me. When this guy gets \$1,500 worth of pension benefits back in a lump sum that is not locked in--it is pretty tough for you to use the argument he is using that to buy milk and shoes for his kids. Mostly it does not work.

Mr. Coward: He may be unemployed for six months.

Mr. Peterson: There is unemployment insurance to look after that.

Mr. Coward: Those who lose their jobs or resign from their jobs frequently want some extra cash. Certainly they ask for it.

Mr. Peterson: In a lot of those cases they are asking--

Mr. Coward: Is the question, how paternalistic the Ontario government should become in forcing them to save and saying, "It is for your own good and we know that you do not like this, but we are doing it for your good 20 or 30 years from now"?

Mr. Peterson: You are prepared to be paternalistic when a guy is 45 but not when he is 32.

Mr. Sprawson: There are (inaudible) contributions from the company ordinarily.

Mr. Peterson: There might just be.

Mr. Sprawson: My experience has been that employees like control of those moneys, whether it is to buy a stereo, whether it is to put into an RRSP. They want control. They do not want to leave it with a former employer for 30 years. They want control. They want access to it. As one reaches one's mid-40s, one is more concerned about retirement and one sees a real contribution from the employer. There would be more acceptance.

Mr. Coward: If I might comment, first of all, we recommend that there should always be company money. That is in our vesting and portability recommendation. The exact age in service I am not too concerned about, but I do think one should have some regard for people's wishes. I have been to so many meetings where the employees say: "It is our money. Why should we not be allowed to do what we want with our money and take the consequences?"

Mr. Peterson: I make two points. Number one, I think historically that has been the case. That is my own experience. However, I think there is a change in that attitude. I know of more young people--a kid phoned me the other day who is 27 years old who wants to go on at Bell Telephone as opposed to a small company where he is a bookkeeper. Why? Because there is a better

pension, a better benefit. I do not suggest for a minute that is a universal attitude today, but I would suggest to you that is an increasing attitude. That is my first point.

My second point is that--of the problem--we are prepared to be paternalistic at certain ages and not at other ages. We all have this view of what we think young people want today as opposed to what older people want today. It is a murky line.

Mr. Edwards: If I might comment, Mr. Peterson. If a young person wants to preserve these pensions in those circumstances, he can readily put it into an RRSP where it will grow over the years till he is 65.

Mr. Peterson: Not if it is not vested--

Mr. Edwards: Taking the example you were putting, he is talking about a pension that he will draw 35 or 40 years hence. It is a question of degree obviously. We do not necessarily say it has to be age 45, but you have to pick a figure somewhere. The purpose of requiring--in other words, this is where the state steps in and says that you must save for your retirement.

It seems to us to be more relevant to do that at some age which is a little closer to his retirement than when he is 25 or 30. You could make it from age 16 if you wanted to, but it is also really a question of where you draw the line. We think it should not be right from the beginning of employment, that it is adequate if you start at some age which is, in this case, say, approximately 20 years from retirement.

Mr. Peterson: We have asked Wells Bentley about when is 45 (inaudible), and he may know, but it is usually one of those numbers rooted in antiquity that no one knows exactly how the (inaudible) but, you know, why that one? It seems to me that the shift is going to be down from that. I am open on this, but I tend to like more age requirement on the vesting and probably years of service and much less than there is now.

Mr. Coward: The figure 45 came about largely for historical reasons. The tax department had a rule of age 50 and 20 years of plan membership. The Ontario discussion centred around what was a reasonable age that would be accepted. It would have been smaller if it was not for the employment of women, nurses and so forth. A large number of women were very anxious not to be tied in and not to be able to get their contributions back.

I have been in many of these discussions and I get two questions that are rather hard to answer. First, what is a dollar going to be worth 30 years from now? Second, what is social security going to do 30 years from now? If we look back only 20 years, the only social security we had was \$40 a month at the age of 70. Now we are talking about \$500 and something for a single, and the fellows collecting at the age of 65. These are quite relevant questions when you are looking 25 or 30 years ahead.

I think this is one of those questions where you have to compromise. In theory, perhaps immediate vesting would be best, if

you want to get an easily accepted improvement. I don't think you want to bring it right down to age 21 or something that low. So we are suggesting a middle solution for now.

Mr. Peterson: You have talked about mandatory retirement age. You suggested at some point--I just want to go back--you say you do not want to see the age changed in legislation, but you think we should "adopt" legislation that encourages private sector employees to take a more flexible view of retirement age. I have to agree with that in theory, but I don't understand what kind of legislation that would involve.

Mr. Edwards: Perhaps, on the other point, I can just clarify that it is age plus years of service that would be 45, not age alone.

Mr. Peterson: That doesn't help the 30-year-old. No, the mandatory retirement age.

Mr. Edwards: Oh, yes.

Mr. Peterson: You want legislation to encourage private sector employers to take a more flexible view.

Mr. Edwards: I guess we would have to confess that we did not go into that in any great depth. I think, for example, you would not want to have an old age security system that would, in effect, provide a disincentive to continuing to work past 65. We suggested that the public service might adopt flexible retirement policy with respect to age of retirement.

Mr. Peterson: Would that be by mutual consent or the employee's option or--?

Mr. Edwards: I think in our longer paper we suggested the matter should come up for review at a certain age, probably 65, and that any continuance of employment be subject to a mutual agreement from time to time after that.

Mr. Peterson: We are trying to develop a system to keep Wells Bentley around here, you see.

Mr. Edwards: I would hope that might work.

Mr. Peterson: But no particular--just set the example, is what you are saying.

Mr. Edwards: That's right. We suggested governments might do that. I know certainly of some employers who have a flexible retirement policy where they do by mutual agreement of the employer and employee extend employment on a year to year basis or some other basis. I guess, without going into detail, we just think if there is legislation that provides a disincentive to that, it should be fixed up.

4:10 p.m.

Mr. Peterson: I want to talk to Mr. Coward about the

indexation. I gather you are one of the proponents of the excess interest group. I have heard it explained to me about eight times and I do not exactly understand it, but I am grappling with it.

Do you believe, Mr. Coward, that we should legislate some sort of augmentation program or something as a minimum standard for protection against inflation?

Mr. Coward: I am here speaking for the Board of Trade of Metropolitan Toronto which is opposed to legislation on indexing. Personally, I am not adamant on the subject. I simply think that, if we had any legislation, it should be based on the excess interest earnings principle which is discussed at great length in the Lazar report, as you know, and Professor Pesando of the University of Toronto has written some excellent papers on this subject.

I personally take the position that, if we impose any kind of indexing, it is much more reasonable to do it on that basis than to provide for a specific external index to be used regardless of how your fund is doing. The board of trade does not favour legislation.

Mr. Peterson: I am talking to you in your personal capacity now. Forget the board of trade for now. The board of trade does say the difference between current interest rates and realistic rates of return is just four per cent. Is that the formula they would use if they were hit by legislation?

Mr. Coward: I think that is a very reasonable thing to do. It is a system that is working well with a few employers who have tried it. A well-known one is the Toronto Transit Commission, which indexes on this basis. I think they are using 4.5 per cent, and they have had it in force with great satisfaction for some years.

Mr. Peterson: How long has that plan been going? Is that just a function of the high interest rate scene, or is that pre-high interest rate scene? Is that 10 to one constant?

Mr. Coward: This has been in effect with that company for, I think, seven years. The current rate of interest earned by the fund which is calculated in a certain specified manner is between 10 and 11 per cent, so the increase that was made at the beginning of this year was in excess of six per cent on all pensions. It is rising very steadily and will continue to do so for some time because it is an average yield of the fund over the last few years.

Mr. Peterson: It may come down, but at least things are--

Mr. Mackenzie: Is there a specific reason briefly why the board of trade's position is definitely against indexing?

Mr. Coward: I think employers feel there would be no limit to the amount of indexing they would be required to provide if one started. They are adamantly opposed to this form of indexing.

I would like to point out that, when inflation first hit us in the early 1970s, it did not lead to surpluses in pension funds. It led to very large losses. The salaries went up first and the price of the bonds and other securities dropped.

On the one hand, you had liabilities going up because salaries were higher and the value of the assets dropped 20 per cent. That put them in a very serious situation. A little later on, as there was more new money in the funds, there genuinely was interest profit. In other words, on the investment side there was surplus.

But a great many companies spent that surplus by improving the initial level of benefits by giving way on survivor benefits and other improvements. Employers by and large feel they have already given the employees the surplus in advance. They have improved the initial level of pensions and they don't bother to spend for another purpose.

You can argue, of course, that this is not really the case, but this is the view many of them take. In many cases, they did improve the plans very much when the surplus arose on the argument that the pensions might be on the high side when they started, that they would come down and be reasonable later on, coupled perhaps with a thought in their minds that, as people get older, they gradually require a little less to maintain a decent standard.

So these are the facts: The initial rate of inflation put pension plans in a serious financial position. Then when they came out and began to improve, because of the high-interest earnings, those surpluses were largely spent. I have a good deal of sympathy with the employers' point of view. They do not want to be forced into a particular level of indexation.

The point I am making is that the workable arrangement, if the decision comes that we must have legislation, is to base it on interest earnings above a certain level.

Mr. Peterson: What about the corresponding argument that it would force fund managers to be less aggressive to cover their backsides? Do you accept that?

Mr. Coward: I don't think so, because we are really talking about using interest on the pensions portion of the reserve. The fund has \$100 million, of which \$25 million is for pensioners and \$75 million for active employees. In effect, you are using the excess interest on the pensioners' \$25 million; the excess interest on the balance will be for the benefit of the fund.

I do not frankly think it would make the least difference to the attitude of managers. Very often they have got money in the can and they know that a higher investment return will do the fund good in the long run.

Mr. Sprawson: Could I just make a small point there? I wear two hats, I guess. I sit on the pension commission as well.

Mr. Peterson: Are you coming back to see us again, Mr. Sprawson?

Mr. Sprawson: I don't know; maybe. Just talking in terms of the board of trade: The board of trade has said there should not be any mandatory indexing of pensions, and we will support that. But we do have a strange situation at the moment where it is possible to get a rate of return way in excess of inflation. So there are some excess earnings being made.

There is a mechanism needed to ensure that excess interest, that real rate of interest, is not used simply to reduce the cost of the active employees. Those funds that are earned--the excess interest earnings in this period where we have a real rate of return--should be used for the benefit of pensioners. Most employers do that, but some do not. That is something that can be addressed in the regulations.

Mr. Peterson: We could legislate that. In your judgement, would it be a major problem to draft that regulation?

Mr. Bentley: It would be a major problem in determining the base rate on all the other things, yes. But it is entirely conceivable it can be set by regulation. In fact, it is being looked at seriously.

Mr. Sprawson: But that does not call for mandatory indexing by doing that. All you are doing is ensuring that the people who are entitled to the funds--

Mr. Peterson: If you have a good fund manager, you would get it; if you don't, you don't.

Mr. Edwards: It may be connected with our opposition to mandatory pension plans. In other words, if you don't have a mandatory pension plan, it would not seem consistent to require mandatory indexing where you have one.

At this point we have said we will come out in principle in favour of this modified type of indexing, but we have pointed out--it is on page 32 of our longer brief--that, if this type of program were to be introduced, employee and employer contributions would have to be increased or, in some cases, starting benefit levels would have to be reduced.

The position of many employers has been they understand and agree with the concept of indexing but they just cannot afford it. They cannot undertake that type of long-term commitment. To keep within the same cost context, you would presumably have to change your starting levels, in many cases at least, in order to accommodate the subsequent index. This would be very difficult to do on a basis that would be satisfactory in all situations. We do agree with this in principle. It may be that some method will be evolved in legislation eventually, but we do think it's premature at this time.

4:20 p.m.

Mr. Mackenzie: I'd like just for to moment to get your attitude to more employee or worker participation in plans.

Mr. Coward: On the management committees and so on? I think we were divided in our opinions on that. I think there should be employee representation on the pension committee that administers if it is a contributory plan. I am not so sure in the case of a noncontributory plan that is unilaterally put in by the employer.

Mr. Mackenzie: That then is a total rejection of the deferred earnings principle in a contributory plan. It is still in many cases negotiated where they have a union.

Mr. Coward: I do not see that is a total rejection.

Mr. Mackenzie: Well, if it's your money, why shouldn't you have some participation or say in it?

Mr. Coward: What is it you want the employees to do? To select the investment policy or--?

Mr. Mackenzie: They can hire expertise as well as the company can. I know it is a point you get an argument about in negotiations, a very strong argument.

Mr. Coward: No.

Mr. Edwards: We have no objection to that being negotiated in an agreement or being introduced by an employer, but we do not think it should be mandated. We think under our present economic system it is a matter that should be left to the individual discretion of the employer and, where there is a union, to negotiations between the employer and the union.

Mr. Chairman: Further questions? Well, thanks very much, gentlemen, you have been of immense help to the committee this afternoon. I think we have probably derived a lot from the questions asked and the interest generated. We appreciate your appearance and the time you have given to come before us today.

The committee stands adjourned until 10 o'clock Tuesday morning.

The committee adjourned at 4:25 p.m.

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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

THURSDAY, AUGUST 27, 1981

Morning sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk: White, G.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Trust Companies Association of Canada

Miller, E. Donald L, Vice-President, Corporate Affairs, Canada
Trust Company

Wannamaker, D. Assistant Vice-President, Pension Trust Services,
Canada Trust Company

Whitelock, W., Senior Consultant, H.O., Pension Services, Montreal
Trust Company

Lewis, P., Senior Pension Consultant, Royal Trust Corporation of
Canada

From the Ontario Public Service Employees Union

O'Flynn, S., President

McCrossan, P., Consultant

O'Grady, J., Administrative Assistant to the President

LEGISLATURE OF ONTARIO
SELECT COMMITTEE ON PENSIONS

Thursday, August 27, 1981

The committee met at 10:08 a.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: Gentlemen, I see a quorum. I was just going to read the exhibits.

Mr. Peterson: Could I bring up a small point?

Mr. Chairman: Go ahead.

Mr. Peterson: It is a point about Hansard. I am under the impression that we get 45 copies of Hansard at the disposal of the clerk. I am getting certain requests from people for copies of Hansard. I would ask you to send a letter to Hansard asking for 60 or 70 copies, whatever the clerk thinks is appropriate, so that I can send these out to certain people who are interested in these deliberations. It seems to me that it would be no more problem to make 60 than 45.

Mr. Chairman: I would be happy to look into that with the clerk and with Hansard.

Mr. Peterson: Would you mind?

Mr. Chairman: It may be that if any members have requests for copies of Hansard that the clerk's office could service those requests. That would simplify it.

Mr. Peterson: Would you like a quick motion so you can write to Hansard?

Mr. Chairman: I do not think a motion is necessary.

Mr. Peterson: Apparently they get nasty about these things.

Mr. Brandt: You could charge it directly to Mr. Peterson's account, Mr. Chairman.

Mr. Peterson: You asked me to cover the deficit yesterday, which I did. What more do you want?

Mr. Brandt: I thought we had worked out an arrangement that you were going to buy dinner.

Mr. Gillies: We are still waiting for the dinner.

Mr. Brandt: If you cannot make it, those of us who were not able to be with you would accept cash in lieu thereof.

Mr. Mackenzie: Liberal-Tory coalition.

Mr. Peterson: I heard you do things like that.

Mr. Brandt: Yes. You finally caught on to us, did you? Now that you know how the game is worked we hope you will organize yourself in a similar fashion.

Mr. Chairman: If I could repeat myself, the clerk is sending out copies of Hansard to those who request it. I was not aware of any shortage. If members would like to contact the clerk with any request that they have, I am sure they can be sent out. Is that all right?

Mr. Peterson: The point is that apparently I was just talking to Graham. He has asked for them but they will not give us more than 45. So my suggestion to you is to write Hansard as chairman of the committee and say we want more copies in the clerk's hands so that I can get more copies to send out to people who are interested through me or the other members of the committee. It is that simple. We will require a letter from you. I said that if you want a supporting motion, fine.

Mr. Chairman: Let us look into it. All right?

Since the last day exhibit 80 has been added to your file. That is the submission from the Canadian Institute of Actuaries. Exhibit 81 is the submission of the Canadian Institute of Actuaries to the Canadian Pension Conference. Exhibit 82 is the submission of the Social Planning Council of Metropolitan Toronto. Exhibit 83 is the submission from the Ontario Advisory Council on Senior Citizens, Comments on the Report of the Royal Commission on the Status of Pensions in Ontario, dated July 31, 1981.

We are fortunate this morning in having with us a delegation from the Trust Companies Association of Canada. Those appearing are E. Donald L. Miller, vice president of corporate affairs of the Canada Trust Company; Douglas E. Wannamaker, assistant vice president of pension trust services with the Canada Trust Company; William H. Whitelock, senior consultant, H. O. pension services of the Montreal Trust Company; and Paul F. Lewis, senior pension consultant of the Royal Trust Corporation of Canada.

Gentlemen, would you care to come forward to the microphones and indicate how you wish to make your submission? I gather you have an opening statement that you want to make. I hope you do not mind some questions later.

Mr. D. Miller: Mr. Chairman, the opening statement will be quite brief. We will be happy to field questions afterwards.

Mr. Chairman: Will you please sit down.

Mr. D. Miller: Thank you. Mr. Chairman, members of the select committee, the Trust Companies Association of Canada is pleased to have this opportunity to present its views to your select committee.

We note that the terms of reference for your committee direct you to inquire into and review the recommendations of the report of the Royal Commission on the Status of Pensions in Ontario. This is good because any broader mandate would merely have prolonged the decision-making process leading to effective legislation.

Much has been spoken and much has been written over the past few years about pension reform. All constituencies have had an opportunity to be heard by now. Our industry approaches the subject from two perspectives: as an employer of over 25,000 people and as the trustee for over \$40 billion of pension plans, retirement savings plans and other deferred income plans. In our intermediary function there is an additional pool of funds of about \$40 billion.

These financial responsibilities require us to focus much attention on the future capital needs of the country. Investment to achieve energy self-sufficiency, to maintain modern world competitive manufacturing plant, to develop the high technology facilities of which Canadians are capable, all of these things will strain the pool of national savings. Retirement savings make up a significant portion of that pool.

Thus, we have been heartened by the commission's rejection of any expansion of the Canada pension plan. The private sector financial institutions can more evenhandedly and expertly channel these savings through the capital market to meet our capital requirements.

The commission has addressed the critical question of coverage. It recognizes that it has to be mandated and yet proposes a flexible system whereby the employee has a choice of financial intermediaries.

Job mobility has become a way of life in our society. It is the exception rather than the rule today when an employee stays with one employer for his or her entire work life. Thus, the commission has made recommendations respecting portability, earlier vesting and locking in. It is realistic in its recognition of the added cost of thus improving pensions but, as these costs are more clearly delineated, a phasing-in period could well be required.

With respect to portability and in those instances where an employee's benefits cannot be transferred to his new employer's plan, we strongly support recommendation 50. There already exists a comprehensive and flexible system for individual retirement savings plans, and these could be qualified to provide for locking in. This is surely the most efficient way to handle portability with a locking-in feature. Recognizing that there is this system which can be adapted for the mandatory plan and for portability, we have to question the need for the central pension agency acting as an investment medium.

The commission devoted much time to employee pension plans in the Ontario public sector. We are heartened by the general principles which they laid out, particularly that these plans

should be designed to achieve parity with the private sector plans and no more. From the report it would seem that they have grown, like Topsy, without clear direction and, in the commission's view, with a lack of proper cost control.

Quite rightly, the commission has singled out inflation as a special retirement concern. In seeking the solution, the commission quite rightly refuses to mandate indexation for the private sector. It proposes instead that there be an inflation tax credit, and some such device is certainly what we would favour.

Government, lacking the fiscal discipline that applies to an individual or to a business, has sought to achieve socially desirable goals without recognition that you can't take out of an economy more than the economy produces. In this respect, Canada is not different to many of the other industrialized nations of the western world. Unfortunately, as with all of them, it has resulted in an economic climate which fosters inflation.

The problem with indexation, the problem with any scheme to ameliorate the effects of inflation, is twofold. It decreases the will to fight inflation and it fails to grasp that if inflation is not fought, the result will be hyperinflation and ultimately economic collapse. It may be easy enough to develop formulae to index for inflation of 10 per cent, 15 per cent or 20 per cent, but what happens if, as in Israel or Brazil, the rate of inflation starts exceeding 100 per cent per annum. I'm sorry we cannot offer any easy solutions.

10:20 a.m.

To finish, I would like to highlight two of the general principles enunciated by the commission: that retirement income is a combined responsibility of the individual and the government, with the government ensuring a minimum level of income and the individual such higher level as he may desire; and, secondly, that there must be improved communication not only by the employer to the employee but also by government to the people in order that there can be an appreciation of the costs involved.

I am not a pension specialist, but with me today are Doug Wannamaker of Canada Trust, Bill Whitelock of Montreal Trust and Paul Lewis of Royal Trust, whose knowledge of the subject is much greater than mine. Between us we will try to answer any questions you may have.

I would like to add one personal note before turning it over to questioning, and that is that over the years I have read the reports of many royal commissions and task forces, and in fact I have been on a federal task force myself. Rarely have I seen a report that has appealed to me personally as much as this one in terms of the practical way that it has looked at a very difficult problem.

I certainly would thank the Haley commission for a job well done, and I suspect that my colleagues would do so as well.

Mr. Chairman: Thanks very much, Mr. Miller. We already have members indicating that they wish to ask questions. Mr. Gillies is first.

Mr. Gillies: Thank you. Mr. Miller, I would like to zero in on a few of the points you raised and raise some other points that we have had brought before us during the last couple of weeks.

We have heard some very severe criticism in this committee of the private pension industry in two areas primarily. One is its investment policies, which have been cited by many in here as too conservative. There is some feeling that private pension funds are bringing in less-than-adequate rates of return, so I would put that to you as one question.

The other one, and perhaps more important, is coverage. We have been led to understand that about 54 per cent of our people are covered in any kind of private pension plan. We know from information brought to us by certain groups that the people covered in larger pension plans with the larger companies are probably in the upper levels of income for working people. They probably have other sources of income. About 60 per cent have investment income of another kind. They have rental income. About 10 per cent of them have other employment income after retirement, and this sort of thing.

We don't really see them as our problem area. We're very concerned in this committee--I think we come at it from different points of view, but we are very concerned--about the people with lower levels of income who may be working for smaller businesses and who are not currently covered by any sort of pension scheme. Because of the ravages of inflation, we are trying to determine how they might best be served when they reach their retirement years.

I wonder if you might offer us a few thoughts on that area specifically. I think there is some feeling in the committee that for those covered now under the large pension plans the status quo is working. We are worried about some of the other people.

Mr. D. Miller: I will answer your first question myself first because I have come up through the investment ranks in our company, and anybody who says that private pension plans administered by trust companies, by life insurance companies, are too conservative just is expressing a very uninformed opinion.

Philosophically, there has been a problem over the years in developing a broad policy as to how much you put into equity and how much you put into fixed income. The reason this has been a difficult decision to make is that the stock market has gone up and then it has gone down. The trouble generally is that whenever the market is up everybody wants to buy stocks; when the market is down nobody wants to buy them.

In most private pension plans, while there may not be actual direction from the client, the company whose plan it is, nevertheless tends to exert a degree of influence on the trustees. Quite often that influence has prevented us from buying stocks when markets have been low and has pushed us into increasing the equity content of a plan when markets have been high. But there certainly should be no criticism that private pension plans have not provided equity capital for the Canadian manufacturing industry, Canadian merchandising and the resorts industry.

I think that basically answers your first question. I would like to turn the second question over to Mr. Lewis.

Mr. Lewis: There are some who wonder why private industry is criticized for having failed when in fact you said it is working and others have said it is working for those who are covered by a pension plan. Surely we must say that private industry has succeeded. The criticism lies in the fact that there has to be a way to encourage it to expand. There should not be a discouragement; we shouldn't throw away the baby with the bath water. I say that if we were to expand private industry, then more people would be able to receive the retirement incomes that people currently in private pension plans are receiving.

Mr. Gillies: I don't necessarily disagree with you. Some would say that the other side of this coin is to ask why private industry hasn't moved into that area without mandating.

Mr. D. Miller: I will answer that question. I would say there really is no central private industry as the trust companies are involved. The trust companies are primarily managers of money that comes from pension plans set up by employers. We don't set the terms of the plan; the employers do. I think it's that simple.

Mr. Lewis: Our brief does stress that we feel there should be an expansion or a mandating of something similar to the PURS system. We feel that this would bring the coverage you are talking about. There has been some reticence in expanding. If we take a look at the statistics, we have seen that pension plans are increasing; they are expanding.

Mr. Gillies: Okay. On the PURS program, if I might just zero in on that for a moment, I think one of the key questions that we would face if we were to adopt some plan based on PURS is the question of compulsory versus noncompulsory. Again, we get the impression from some of the groups we have had in here that because of the pressures already existing on low-income people and on marginal businesses, et cetera, the only way we would get participation is to have some sort of compulsory scheme. I wonder if you might comment on that.

Mr. Wannamaker: I think that's a fair statement in that pension plans generally tend to cover employees of larger corporations. When we talk about the lack of coverage or say that only 50 per cent of the work force is covered I guess the question that comes to my mind is whether there has been an analysis of the characteristics of those people who are not now covered under pension plans. I expect that even with the larger corporations there is a large element of employees under the age of 25 who would not be captured in existing pension plans.

As well, when you get into the small or medium-sized companies I believe that the voluntary introduction of a plan is likely to be much more difficult for some of those companies to endure because of the costs of operating and so on. I think that has been pointed out to some degree by the small businessmen's association. But I think the trust industry, the insurance industry or others have tended over the years to sell small pension plans to small employers, maybe through savings plans, deferred profit-sharing plans or things of that nature.

However, to some degree, I think there has been reluctance--and maybe rightly so--on the part of some employers to introduce plans primarily because of the cost. I guess we are saying that some minimum plan that is mandated will pick up, first of all, the lack of coverage we now experience and, second, something realistic that hopefully will not take away a large amount of cash from what you call the lower wage earners. I think that is the approach we have taken in terms of our view of the royal commission report.

10:30 a.m.

Mr. Gillies: One final question if I may then, Mr. Chairman.

Mr. McClellan: Could I just ask a supplementary? I am unclear about what you are saying. If I understand what you are saying--and I may be paraphrasing--you do not have any concerns about imposing the cost burden on sectors of business and industry that heretofore have been unwilling to go into private pension arrangements on a voluntary basis.

Mr. Wannamaker: I think that cost is imminent. I think it is going to come regardless. If I had a small business, I might think the same way because I can see the added cost which is going to reduce my profitability downward.

Mr. McClellan: Can you give a bottom line on what the minimum imposed cost ought to be in your view?

Mr. Wannamaker: I am not sure I can give a bottom line other than to suggest the recommendations put forward in the royal commission report relative to contribution levels. To me, those levels seem quite reasonable.

Mr. McClellan: In the order of what per cent of payroll?

Mr. Wannamaker: Two per cent graduated depending on age. There again, obviously it would impact according to salary. It could be graduated according to salary or have some relationship to the AIW.

Mr. McClellan: Thank you. That is helpful.

Mr. Peterson: As I recall--and I may be wrong here--you are the only management or financial group that has come before this committee suggesting the mandatory PURS system. Everyone else has said it should be voluntary. My recollection may be faulty but I think I am right on that. Most people do not like PURS for a variety of different reasons, but the mandatory nature of it has been severely criticized by most financial and management groups.

Mr. Chairman: And labour.

Mr. Peterson: Well, okay. They want to come at the same thing in a different way. They want mandatory legislation; they want mandatory coverage. You are asking for mandatory coverage. What is your assessment of the extent of the coverage problem? Mr.

Gillies just mentioned to you that the number used is only 50 per cent or 40 per cent covered by private pension arrangements. A number of groups have come to us and said that is not correct. Depending on what you add in, the house, the farm, the small business, RRSPs or whatever else you want to calculate in as part of one's retirement program, the coverage problem is probably in the order of 20 or 25 per cent as opposed to 50 per cent. What is your assessment of that?

Mr. Wannamaker: Whether those figures are reasonably accurate?

Mr. Peterson: What is your assessment? How big is the problem? You were just saying that you feel we should do a profile of those people who are not being covered today, and you may be right, but how big is the problem? You handle people's retirement plans.

Mr. Wannamaker: Yes, as Don has indicated, we handle a large segment of pension plans across the country. For example, we have something in excess of 600 small businesses that have deferred profit-sharing plans with us. It is a money purchase arrangement, if you will. Contributions are related to profits. I think a number of those corporations are quite willing to get into that kind of small plan arrangement. It is easy to understand. The cost is known.

Mr. Peterson: I understand that, but what is the extent of the coverage problem? That is my question.

Mr. Wannamaker: I am not sure I can answer your question on the basis of the reports we and everyone else have read. I do not think the coverage problem is as severe as we are led to believe. Having made that statement, I have no hard facts to support it.

Mr. Peterson: A cynic would say, looking at your brief, that you would like the PURS system because look at all the extra money you will have to manage. The PURS system is a trust company's dream.

Mr. Lewis: For insurance companies, banks and others too. We are not just feathering our own bed.

Mr. Peterson: Well, financial institutions.

Mr. Lewis: But I think if you take a look at the Statistics Canada releases that have come out from Health and Welfare recently, they have done a comparison of the incomes of the elderly. They show that on the incomes of the elderly that are in the lowest end, these individuals were not covered by pension plans. Those who are better off in their retirement have been covered by pension plans. I think we can take that statistic as an indication that any individual who is covered by a pension plan has greater retirement income security. It is for that reason we feel that we must have some sort of system to guarantee an individual will have retirement income.

We would like to see it as, not a compulsory system, but certain individuals--like the adage of the grasshopper and the ant--will not save for their retirement and they will depend upon society at the end or they are not in a bargaining position where they can negotiate a pension plan.

Mr. Mackenzie: Or they simply can't afford them.

Mr. Chairman: I am wondering if we are wandering in terms of our supplementaries. Mr. Gillies had asked the main question.

Mr. Epp: I have a supplementary too.

Mr. Chairman: Okay. If you want to carry on with supplementaries, we do have a list.

Mr. Gillies: I just have one question.

Mr. Chairman: If you would not mind because we must move along.

Mr. Gillies: Sure. Page 2, I think, contains a very key point. In brief, gentlemen, you feel very strongly that the Canada pension plan should not be expanded, that the private industry can deal more equitably and even-handedly with the problem. I think there are some of us who may agree with that, although I certainly have not formulated a final position on that myself.

One of the criticisms we would hear from our friends who are definitely pro-CPPers is that--and I won't name them because I do not like giving them publicity, but for the record--

Mr. McClellan: We are the only ones in this committee who have a position.

Mr. Mackenzie: The rest of us are still waiting for the word to come down.

Interjections.

Mr. Chairman: I hope what you mean by that is everyone has an open mind.

Mr. Gillies: The question I would put to you in that regard, gentlemen, is that if we go for some sort of PURS option it is going to require 47 years to mature. Presumably, if there were an increase in Canada pension plan pay-out, then it could be fairly immediate. I think there is a philosophical argument behind this which I would like you to expand on a bit. How would you respond to that criticism?

Mr. Lewis: I would ask where you are going to get the money to expand the payments immediately out of the Canada pension plan? It would have to come from somewhere. It could be increased cost to everyone or whatever. This money will flow to everybody--

the increase to the Canada pension plan--because the Canada pension plan is a regressive tax. If we increase the amount of coverage under the Canada pension plan by increasing the cap, it is going to be going to the people who are earning more money now.

We propose the PURS system because it keeps it in the private sector. We also propose it because--I sort of lost my thought on that--if we have it in the private sector it will increase the investment that is available in the economy. If we take it out of the Canada pension plan now, it will decrease the investment that is available in the economy. We are still a young country. We need the investment in manufacturing and energy resources. I cannot see where the money is going to come from.

Mr. Gillies: Could you clarify that one point for me because I think you hit on a very key point? The Toronto Star and others aside, the CPP is a regressive tax.

Mr. McClellan: But that can be changed, as you well know.

Mr. Gillies: But as it stands--

Mr. McClellan: Let's not keep dragging all kinds of red herrings across.

Mr. Gillies: That was no red herring.

Mr. Peterson: That was no red herring. It's a hell of a good point.

Mr. Lewis: We suggest that what we should do is maintain the idea of an income-tested, a means-tested, guaranteed income supplement or the Gains. That way it will only go to those who need it. If you increase the Canada pension plan, the millionaires will also receive the Canada pension plan moneys.

If there is a means-tested program, the individual who has saved on his own, who does not really require the money, will not be getting the money. We feel that way it would not be regressive.

Mr. Mackenzie: I have a supplementary on that.

Mr. Gillies: Yes, I am finished, thanks.

10:40 a.m.

Mr. Mackenzie: Since you are in favour of the PURS program, apart from the fact that it leaves it in the private sector, is there an acceptance on your part that there is a need for some improvement in the basic pensions for a lot of people, and that is one of the vehicles? Or is it simply a defence mechanism against the CPP being increased?

I am looking at the fact that 53 per cent of the people that are on retirement today need Gains and GIS to make ends meet. Fifty-three per cent of them are collecting it, so there is obviously a serious problem. Regardless of what people argue over the coverage and the adequacy, there are people who desperately need some additional assistance.

I notice you make a point that the government has a responsibility in terms of basic minimums. What kind of an increase do you see as necessary in the basic minimum? Is your support of PURS simply the best way to do it to keep it in the private sector? Does it indicate an acceptance that we have a problem in terms of income?

Mr. D. Miller: Yes, it does.

Mr. Mackenzie: There is no question in your mind.

Mr. Lewis: Reading the statistics, you would have to indicate that.

Mr. Wannamaker: The statistics indicate that there is a problem. We think that a minimum pensions type of program is a realistic approach.

Mr. McClellan: But we have to go the mandatory route because of the seriousness of the coverage problem. I do not want to put words in your mouth but I am quite sincere about that.

Mr. D. Miller: Let me answer that.

Mr. Mackenzie: What is concerning us is how we are going to deal with inadequate income.

Mr. D. Miller: I am very much concerned that if it is not mandated, then there is going to be a percentage--and I have no idea what percentage it might be of the population--who either will not bother, or their employers will not bother, to do anything about preparing for retirement. That probably means that at the time they do retire there is going to be a hue and cry socially that we have to do something for them, which in turn means that the general taxpayer is going to be subsidizing people who were not prepared to do anything themselves to provide for their retirement. It is a philosophical question.

Mr. Mackenzie: I think then that we also have to put on record very clearly, because we get this argument all the time that there are people who will not, that figures also very clearly indicate that the bottom 20 per cent, and I believe the bottom 40 per cent of Canadian people, once again in spite of just society cries of a number of years ago and all the rest of it, have a decreasing share of the disposable income. My argument, from my personal experience in my constituency, is that a hell of a lot of those people could not put it aside if they wanted to and make ends meet.

I look at the income level, for example, of 58 per cent of 2,000 families in Ontario Housing units in my riding who are trying to get by with kids on income that is deplorable. I am not talking about retired people now; I am talking about people. To say that they could buy into RRSPs or some kind of savings is just ridiculous because they simply cannot. So it is not just those who will not, and I will acknowledge that there is a group that will spend everything they have, and that quite often is in the higher income level than in the lower income level. But there is one hell of a lot of people out there who cannot.

The only reason I get a little bit upset about this is that we consistently from management groups get the argument almost totally based on "will not put aside" for their own needs.

Mr. Chairman: Thank you for clarifying your position, Mr. Mackenzie.

Mr. Mackenzie: We have to understand what we are looking at in terms of--

Mr. Chairman: I understand what you are saying, but I would like to get back to the second questioner, Mr. Brandt, if you are finished, Mr. Gillies.

Mr. Brandt: The question I want to ask really involves the second paragraph of your statement, where you comment to the effect that you have \$40 billion of pension plans, retirement savings and other deferred income plans, and you comment on an additional \$40 billion in your responsibility with respect to being an intermediary function that you perform with that pool of funds. That totals some \$80 billion.

The argument that you are making is that you can better handle this money than government. If that money was shifted through an expansion of the CPP, as an example, and that then led to a reduction in the amount of money that was available to trust companies or other financial institutions, it would not work to the benefit of the economy as a whole. I think that is a relatively good argument, although in the context of what you have said you have not really supported it by telling us what you are doing with that \$80 billion.

I wonder if you could give us some global indication of where that money goes, in other words, where you are investing, what you are doing to fuel the economy and move it in a positive direction, as opposed to having that money shift to government and being used perhaps in a less effective way?

Mr. D. Miller: All right. I will give you a global answer. Of the \$40 billion that is in the intermediary function, roughly 60 per cent of that would be in residential mortgages. Roughly 10 per cent of it would be in government bonds. Maybe five per cent would be in consumer loans. I don't know how I am adding up here now.

Mr. Brandt: Seventy-five per cent so far.

Mr. D. Miller: Probably another five per cent would be in stocks, and those stocks would be equities in a variety of Canadian industries such as raw resources, manufacturing, and merchandising. That brings us up to 80 per cent.

Mr. Peterson: Sixty in mortgages?

Mr. D. Miller: Yes. I could be low on that 60, but what is happening is the trend in the proportion of residential mortgages is declining somewhat. It was as high as 70 per cent. If I had come here two years ago, I would have used 70 per cent as

opposed to 60. Then because some of the larger trust companies have very large money market operations, there would probably be of that \$40 billion total, pretty close to 10 per cent in the money market. Of course the money market can be a variety of things, such as loans to other financial institutions. These are all short-term loans and short-term loans to corporations in a variety of industries.

Mr. Epp: Pardon me, Mr. Brandt, but is all this money invested in Canada? Are you governed by regulations that force you to invest all your money in Canada or is some of this money in other countries?

Mr. D. Miller: The federal legislation forces us to invest everything in Canada unless we are operating outside of Canada. By far the majority of trust and loan companies in Canada invest purely domestically. Does that answer your question?

Mr. Epp: Yes.

Mr. Brandt: I wanted to pursue the line of questioning for a moment, Mr. Chairman. In regard to the comments that were made with respect to PURS, the PURS program essentially is looking at about a four per cent contribution, coupled with an existing 3.6 for the CPP. There hasn't been any comment made yet regarding the reality of what CPP is going to go to with the present level of benefits which we anticipate will be about nine per cent. Totalling the four and eventually nine per cent, if we maintain the CPP at its existing level, you are looking at 13 per cent.

My question to you is, since you indicated some support for the PURS program, do you envisage any problem with a shift of capital today in the amount of 13 per cent? I think that's a realistic small "c" conservative figure, nine plus four out of today's consumers. In other words, this is shifting spendable income today to another generation two or three decades from now for retirement purposes? In effect, you are extracting from today's economy a total of 13 per cent and you are setting that aside for quite a worthwhile purpose--a later retirement--but it does have the effect of removing that amount of capital from today's market in the sense that it's not in the hands of a consumer.

I wonder if you might be able to give us some of your reflections on that concern because if we moved in the direction of an expansion of the CPP, the numbers in my view become totally unworkable. Then you are looking at perhaps an 18 per cent to double the benefit of the CPP. Mr. Gillies was not suggesting it be done, but that's the direction that some have suggested we should follow. If you are looking at that level of extraction of today's money for a later point, I think it would be an even more serious problem. I am taking the lesser of the numbers just to illustrate the point of concern I wanted to raise with you. I wonder if you can respond to that.

10:50 a.m.

Mr. McClellan: Could I interrupt for a second? Mr. Brandt has trouble with the numbers. We don't get to nine per cent until 2003, and we don't exceed 4.6 per cent until 1990.

Mr. Brandt: I beg to suggest that is not what we have been told with respect to the nine per cent. We will get to the nine per cent by about 1991. There has been some suggestion, as you will recall, by one of the speakers that we had yesterday that there would be some valid argument made for decreasing the amount to nine per cent, virtually immediately, to fund the plan as of right now.

Mr. Epp: What is it, Wells?

Mr. McClellan: You can make that argument if you want. The royal commission-- I am just reading their figures--

Mr. Chairman: I think maybe we can work out among ourselves an honest assessment of what that might be, but for the purposes of this question, maybe Mr. Miller or someone else could respond.

Mr. D. Miller: Broadly speaking, what we are talking about is money being shifted from consumption into building capital. It seems to me that this is exactly where Canada has fallen down in that we have been too consumption-oriented and not enough oriented towards capital investment for productivity reasons and the production of income in the future.

Mr. Peterson: On that point, how do you respond to people who say we are running a record savings rate of 10 to 12 per cent in this country as opposed to the States, where it is five per cent?

Mr. Lewis: Savings doesn't equate to investment.

Mr. D. Miller: It does to an extent. You are looking at the rate of savings, particularly between the US and Canada. Our rate of savings is roughly twice that of the US, and this is because of our system of retirement savings that has been built up, the individual registered retirement savings plan. There is not any doubt now that this has fostered much greater savings on the part of Canadians, and because it is being done through RRSP it has helped to meet the capital needs in Canada.

There is one point I wanted to make. I think that we have stressed in here, towards the end, the need for communication and the need for government to communicate to the people, because it is very definitely part of the package that we can develop a system in Canada which will provide everybody with a beautiful retirement income but, in the meantime, it is going to cost everybody like the very dickens.

The United States has a lower level of savings. They also have what is called a social security program which is a disaster and which they are finally going to have to face up to in terms of funding it some way or another. In all likelihood it is going to develop into a pay-as-you-go program, with very substantially increased social security taxes to all wage-earners.

I think Canada has been very smart in developing the RRSP program, and we would much prefer it expanded as opposed to expanding CPP, which we know is just going to go towards immobile capital requirements, unproductive capital requirements.

Mr. Epp: Mr. Miller, if I may be permitted a supplementary, if I am reading you correctly, what you are saying is that the money that has been available to the provincial governments, the \$19 billion that they have obtained from the CPP, and if the CPP were extended to eight or nine per cent, as Mr. Brandt has said--one of the figures that has been tossed around--governments would have access to a lot more money which, in turn, would be very inflationary. The present \$9 billion that Ontario has had and the \$10 billion that other provincial governments have obtained has been inflationary and to expand that would be doubly inflationary. Is that correct?

Mr. D. Miller: That is my view.

Mr. Chairman: But the PURS program would not accomplish something similar in your view.

Mr. D. Miller: No. providing PURS is done as they propose in recommendation 50.

Mr. Brandt: If I am reading your answer correctly, you are saying essentially that it is healthy to have an investment pool created along the lines you are suggesting, as long as it is retained in the private sector as opposed to being controlled by government.

Mr. D. Miller: Right.

Mr. Chairman: So the argument could have been made that you can adjust the Canada pension plan to accommodate something similar and you would have it on a national basis as opposed to a provincial basis, which would work more effectively if you are talking in terms of such items as mobility of labour.

Mr. D. Miller: Right.

Mr. Brandt: Mr. Chairman, I have one last comment. I reject the suggestion that the increases for the CPP can be delayed anywhere near the time frame that was suggested by my colleague.

Mr. McClellan: I am just reading from the royal commission report, Mr. Brandt. It is on page 68.

Mr. Brandt: I am going on the basis of the information which we have had provided to this committee and which was on charts at the front of this room not all that long ago, suggesting that we will have a problem in 1986. We have a more serious problem, and you know, with the accumulation of the surplus, how that would be applied, and by 1991 we have an absolute breakpoint there, not by the year 2030.

The suggestion was made very directly yesterday that there was good and valid reason to look at almost an immediate increase in the CPP to start building up some surplus to delay that inevitable day in some fashion. To suggest that it can be put off for some long time into the future and that we can absorb these huge amounts of increases without any disruption to the economy, I think is very irresponsible.

Mr. McClellan: With respect, there is no point of getting into an interpersonal harangue here.

Mr. Brandt: I was not being personal.

Mr. Peterson: Go ahead. I am enjoying it.

Mr. McClellan: I am simply reading the projected cost increases by the royal commission set out on page 68, which deal with the phenomenon you have just described. The rate increases to accommodate the crossover point, as you describe it, are as I have set them out. They are listed on page 68 of the royal commission report.

Mr. Mackenzie: Mr. Brandt rejects the royal commission argument and accepts the witnesses' argument.

Mr. Brandt: That is not what Mr. Brandt said.

Mr. Mackenzie: That is what you are saying.

Mr. Peterson: I have a number of questions. You are unhappy with the royal commission's suggestion that a central pension agency should be, as I read the report, the manager of funds of last resort. I do not anticipate that Miss Haley wanted the pension authority to be a competitive vehicle to yours or a competitive institution; that it is for those people who do not trust banks, trust companies or anybody else. I do not think that should be a major hangup if they went for that program.

Mr. D. Miller: My concern is that it is a matter of political philosophy to an extent. I felt that in Quebec they had a very workable system whereby pension moneys were being invested to meet productive capital requirements. Within the last few weeks we have seen a development there which indicates that those payments may in future be used more for political purposes.

Mr. Peterson: They have been made for the last two years.

Mr. D. Miller: Yes, but the straw that broke the camel's back, as far as I was concerned, is what has happened in the last couple of weeks.

Mr. Peterson: Domtar, Noranda.

Mr. D. Miller: Yes.

Mr. Peterson: You are suggesting this will be a great repository of funds that would go out and be an instrument of public policy. That is not Donna Haley's suggestion.

Mr. D. Miller: Oh, no. In fact, we are supporting recommendation 50, which in effect says that the employee can choose the financial intermediary. I have not read the complete report, but there seems to be an assumption that some people would not want to put their funds into the financial institutions and that this central pension agency would act as a lender of last resort or an investor of last resort. To me, it's inconsistent with one of the principles which was enunciated that you didn't want to create any more bureaucracy for the management of retirement systems and following through on that is doing that.

11 a.m.

Mr. Peterson: On page three you say in the second paragraph that you are "heartened by the general principles which they laid out, particularly that these plans"-i.e., public-sector plans--"should be designed to achieve parity with private sector plans and no more." Already there's a wide gap. Are you saying that public plans should be scaled down or that private plans should be scaled up? If one read this at face value it would look as if you would have to improve--

Mr. D. Miller: I wasn't personally aware that there already was a wide gap, that the public sector was that much better off.

Mr. Peterson: The public sector plans are generally much richer in benefits absolutely. What does that sentence mean?

Mr. D. Miller: It means that if the public sector plans are of that much greater benefit they should be scaled back.

Mr. Peterson: Of course the public sector representatives argue that the private plans should be scaled up to remove the disparity so they won't look as--

Mr. D. Miller: By the same token, in the private sector you do have fiscal discipline and, presumably, while we recognize that the benefits are going to have to be increased there is the discipline of the bottom line.

Mr. Peterson: We are hearing from a number of experts that the mandating of excess interest to provide some sort of indexation augmentation is feasible and practical and not unrealistic. Now this is a very, very difficult issue, I recognize. But we're hearing it from no less an authority than Mr. Coward from Mercer, who feels that this is a workable thing. There is some disagreement on the number, whether it be three or six per cent or four. The insurance industry has now said six. They haven't been before us and we don't expect they will be. I would be very interested in their proposal; I read it in the paper.

But you say don't mandate that. There is a tremendous amount of pressure on that point, in my judgement. Why do you have that recommendation that we should refuse to mandate indexation of some type or other?

Mr. D. Miller: I think I should defer on the technicalities of using surplus interest to index to some of the other boys.

Mr. Wannamaker: I think that we are opposed to mandatory indexation because of the costs involved. We were suggesting that the tax credit which was proposed in the royal commission report was likely a reasonable approach to indexation of pensions vis-à-vis mandatory indexation in the private pension system. In other words, the private pension system has, I think, to some degree voluntarily indexed its pensions; it is not a perfect indexation, but they have taken positive steps to that end. As you know, getting back to the interest index, Saskatchewan has already implemented that in the changes to its provincial act, and I guess from the standpoint of the association we are not totally opposed to that approach either.

Mr. Peterson: It seems that this thing doesn't read right because I just don't quite understand it. You favour the inflation tax credit?

Mr. Wannamaker: Yes. It seems reasonable to us.

Mr. Peterson: It frightens me very, very much. I am not kidding you. You are going to have a system index on both ends, and I assume that your general view would be that the federal deficit is too high. I assume that. That's a pretty tough thing to advocate today.

Mr. D. Miller: The federal deficit is too high. The development of indexation or an inflation tax credit should be done over a period of years. It should be done after the public is fully informed of the costs of doing it, but it's, I suppose, a simple argument that if government has created the environment wherein inflation flourishes, then that puts a responsibility on government to take care of the inflation and the effect of the inflation on retirement income.

Once you have done that and once that responsibility has been accepted, if, as you imply, that then would mean an even greater deficit, at some point the discipline does descend on government and they have to start cutting back or reducing the expectations of people.

Mr. Peterson: That's a hell of an expectation to tell everybody we are going to insulate them against inflation. You have just removed one of the single biggest fears that people have.

Mr. D. Miller: But ultimately the discipline will come down on government.

Mr. Peterson: Paid for by future generations.

Mr. Lewis: Who can best afford it: the individual, the business or the government? Who are against it?

Mr. Peterson: It's all right to say the government. But it's not the government that pays and it's not their money; it's your money and mine. So we end up paying, just through a different way, that's all.

If it were coming out of Mr. MacEachen's personal pocket we would all have a little different view of the situation, but it's coming out of our collective pockets.

Mr. Lewis: It is possible for us to change the government if they are not handling the economy the way we feel they should be. And if it gets down to a point where we are having sufficient problems, then it's up to us to change management.

Mr. Chairman: Now you are raising expectations.

Mr. Epp: Provincially speaking.

Mr. Chairman: I would like to move along. We have another delegation coming at 11:15 a.m., and there are a number of members who have indicated that they are anxious to ask some questions. Perhaps we could move along to Mr. McClellan and Mr. Mackenzie.

Mr. McClellan: I will be very brief. Just to proceed with the matter that Mr. Peterson was raising, is there not a sense in which you are disguising the costs by recommending a pension system based on known percentages of payroll with an inflation tax credit as a kind of fail-safe mechanism, which I would assume would function to remedy inadequacies within the private component of the pension system, that is to say, the annuities? That's where the inflation tax credit would figure in. In effect, if I understand the way the system would work, you would be adding an additional cost factor into your pension system, which would be a cost of the private pension component in the form of an inflation tax credit. But that cost is never identified; it just comes out of general revenue and is, in a sense, a tax expenditure that doesn't show up anywhere.

Mr. D. Miller: Isn't possibly an analogy to the unemployment insurance fund rather appropriate here? You create an inflation tax credit; that costs money. As people get taxed to provide that money and as publicity is given to the reason for the increased taxes, then you are more likely to force government to cut back their expenditures and try to achieve a fiscal discipline.

Mr. McClellan: I'm not arguing against indexation; I support indexation. But one of the ongoing discussions we have had within this committee is on what the true cost is going to be. My position is to advocate an expansion of CPP. I know what the costs of that are; I can set them out over the course of the next 50 years. But it's more difficult to come up with a determination of the actual costs when we talk about adding on another piece within the private sector, cum inflation tax credit et cetera.

I have one more brief question. As representatives of the trust companies representing in a sense the principal beneficiaries of the royal commission as you said, together with the insurance companies and banks, since I would assume most people going into the PURS program would be expected to buy their annuities from trust companies, insurance companies or banks, have you started to do any preliminary calculations on the size of the market that would be guaranteed to you by legislation if the PURS program is implemented?

Mr. Wannamaker: No. As an association we have no estimate at this point in time as to what the potential market might be. No, we have not done any estimate along that line.

Mr. McClellan: You cannot even ball park it?

Mr. Wannamaker: No, I really cannot.

Mr. McClellan: But it is fair to say that you are not offering any resistance to the establishment of a compulsory market by legislation.

Mr. Wannamaker: I guess we are looking at the issue that everybody is concerned about, the lack of coverage. We are trying to address that issue and saying, "What is the most practical way to address that issue?" This is what we see as the most practical way.

Mr. McClellan: Okay. Thank you.

Mr. Mackenzie: Just two very quick questions. First, do you people accept the argument that a worker's pension plan is in fact deferred income or deferred earnings?

Mr. Wannamaker: Deferred wages? Yes.

Mr. Mackenzie: There is no question in your minds about that.

Mr. Wannamaker: Not in mine.

Mr. D. Miller: Not in mine.

Mr. Whitelock: It may not be the universal opinion of the trust companies, but I think the tendency of most of us represented here is that this is coming and if it is not on the doorstep, it will be around the corner very shortly.

Mr. Chairman: It's not only that it's deferred wages, it is a question of whether you treat it as deferred wages.

Mr. Whitelock: That's right.

Mr. D. Miller: We certainly look at it as part of the compensation package. It goes even beyond that.

Mr. Mackenzie: I realize you are in the investment area. The same questions I have asked others is that one of the weaknesses of private pensions that has caused us a fair amount of trouble in this province and this country has been the question of vesting and portability, basically portability. Why hasn't private industry itself reacted long before this with some effort or some mechanism to solve these two particular problems that have affected even some of us in this room?

Mr. Lewis: I believe we have. If you look at Pension Plans in Canada, published by Statistics Canada, table 18 shows

that in the private sector in 1970, 51 per cent of the plan participants covered by pension plans in the private sector vested before 10 years. If you look at 1978, which is the last data published, 80.1 per cent of the participants are now vested in 10 or fewer years. That is still a fair jump from 50 per cent to 80 per cent. I am not too sure what is going on now.

Finally, I would point out that in the William Mercer study and a CPC study there is an indication from individuals in the private sector that vesting and portability should improve. I do not think you will see pension plans change to come up with this attitude now because all pension plans will have to change very shortly once the new regulations and the new act are out. It is very costly to change these, to come up with new actuarial assumptions. The attitude is, why not wait the six months to find out what all the changes will be and we will make the changes at that time.

Mr. Mackenzie: You accept the idea that if it is deferred wages, there is really no argument against almost immediate vesting.

Mr. Wannamaker: I think we would support--

Mr. D. Miller: Personally, I think we should be moving towards immediate vesting but, because of the cost, it has to be phased in over a period of years. That is our corporate view; it is not necessarily the view of the industry.

Mr. Williams: As we are winding down on this particular presentation, I just want to get it clear for the record, because I do not think you really directly answered Mr. Peterson's question earlier or his suggestion, that this is the first submission we had received that provided total support for the PURS program. You did not really answer that yes or no, or whether you thought there was some other vehicle that could provide the coverage, which appears to be lacking to date, with some arrangement for mandating to provide that alternative vehicle.

I think Mr. Lewis started to touch on that point when we were interrupted and got off on another tangent. I would like to know, for the record, whether your association is firmly in support of the PURS program, or whether the mandating is related to some other optional vehicle which you see as being equally satisfactory or better than PURS as prescribed in recommendation 40.

Mr. Lewis: I personally feel that PURS is the best we have seen so far. If someone has come up with something better, I would like to see it. I think it has advantages over any of the other alternatives, which are to make every employer offer a pension plan that would be too costly for small employers and an inefficient allocation of funds.

We have discussed why we do not feel we should increase the Canada pension plan, and we do not see the statistics bearing out the fact that we can maintain the status quo. We need some sort of

a retirement system that is available to everyone to provide them with something. We see the PURS system as a viable alternative and in our main brief, on pages four and five, we list about eight or 10 points to substantiate why we feel we should adopt the PURS.

Mr. D. Miller: Mr. Chairman, if I could just add a comment to that, I am sorry we seem to have equivocated on that. I think we were partly exposed to the reasoning earlier. While lofty percentage figures are thrown around as to the number of people who are not covered, I have not seen any substantive breakdown of the profile of people who are not covered and, until I do, I do not think I would want to come out too firmly. By the same token, there is sort of a gut feeling that something is wrong, so we have to take what seems to be the most viable vehicle to provide some mandated coverage.

Mr. Williams: And that in your judgement is PURS.

Mr. D. Miller: It is in terms of what we have been shown.

Mr. Chairman: We have run out of time.

Mr. Epp: Mr. Chairman, there are a few of us wanting to ask some questions.

Mr. Chairman: Yes. I was just prefacing the remarks I was going to make in terms of those on the list. We have run out of time and I would ask the two remaining questioners to be brief because we have another delegation later. Mr. Riddell is next and then Mr. Epp.

Mr. Riddell: Whenever the term "mandate" rings in my one ear, my other ear is picking up that voice crying out in the wilderness, "Whoa, enough is enough," and that is the small businessman's. You people are all in favour of some kind of mandatory plan. What effect do you think this is going to have on small business? Are you prepared to see the only competition for large business being the government?

I am concerned about the small businessman. He is loaded down now with about all he can handle. Do you think he is going to be able to cope with more burden than he has now?

Mr. D. Miller: There will be an administrative cost, but all we are talking about, as I understand it in the Haley commission report, is two per cent of wages. You cannot tell me that two per cent is going to bankrupt an efficient small business.

Mr. Riddell: I wish you were with me in my riding right now to hear the small businessmen talking about how they are just on the edge of going over the brink because of high interest rates and what have you. I have to wonder to myself if we can keep loading them down with more costs.

11:20 a.m.

Mr. D. Miller: Part of the problem in this whole business of pension reform developing at this particular moment is

that all our thinking is being coloured by an economic situation that we have never known in North America before. It seems to me that people have got to regard this as a transitory thing or else there is no point in proceeding with it at all.

Mr. Riddell: I don't know how long it's going to last. We're hearing talk now of 30 per cent interest before this thing is over and the eventual crash. I hope it doesn't happen.

Mr. Chairman: You tell your small businessmen it's an aberration.

Mr. Brandt: And they can tell the bank the same.

Mr. Riddell: The other thing I wanted to ask is that we hear about enriching the Canada pension plan and how it would be inflationary. What if governments were compelled to invest this money in the private sector, if indeed they are building up a fund? But we are talking more of pay as you go with the enriched Canada pension plan.

Mr. D. Miller: I will give you a personal opinion. We have just seen a government agency buy a foreign oil company at a cost of \$1.4 billion, which is almost three times what the equity of that company was selling for on the market. I was going to swear, but I won't. I would hate to think that we could develop a system whereby investments involving billions of dollars which are going to have to come out of the taxpayer were just being as inappropriately made.

Mr. Riddell: Do you think they have been appropriately made the way they have been used in the past, investing in the provinces so that they can pay off their deficits? It would appear that the governments, particularly the Ontario government, have no intention of paying that back. Is that a good, sound investment as far as you are concerned?

Mr. D. Miller: No.

Mr. Riddell: Good. I'm glad to hear that.

Interjection: That's farm grants.

Mr. Riddell: Farm grants? Half of one per cent of the total provincial budget to the farmers? Don't you give me that line of nonsense.

Mr. Epp: The other half is going into the (inaudible).

Mr. Chairman: We have now led into Mr. Epp's question. I presume, Mr. Miller, that your answer was dependent on the assumptions made by Mr. Riddell.

Mr. Riddell: He knows what I'm saying are the facts.

Mr. Epp: Thank you, Mr. Chairman. I would like to direct a question to Mr. Wannamaker. It touches on something you said earlier, that if we are looking at a program to try to touch those people who are not now being covered we haven't done a real base study on whom that will affect.

I think you or Mr. Miller indicated earlier that you cover about 600 companies for which you have some kind of pension plan or for which you handle the funds. Have you done a study on the kind of employees you are affecting, how small the companies are, how big, the kinds of incomes, et cetera?

Mr. Wannamaker: The 600 I referred to are a group of companies that would generally participate in what I would call a savings-type plan or a deferred profit-sharing plan, where employee numbers range anywhere from one to 15--that size of business.

Mr. Epp: So there are really no larger companies, just those--

Mr. Wannamaker: Some are. We have another group in which you are talking about the large national and multinational corporations. But I'm talking about--

Mr. Epp: About those 600.

Mr. Wannamaker: --companies that are into what I would consider a sort of money-purchase arrangement, and it covers that smaller employer group. I'm sure that if you did a survey of all the financial institutions you would find they would have numbers equal to that or even greater.

Mr. Epp: You indicated earlier that you wouldn't increase the CPP, that you would probably leave it the way it was, that you really favour the (inaudible). I think your premise was that CPP should remain as it is and you shouldn't increase it. Based on the information we have heard here, if we didn't increase the CPP, then if the money weren't paid back by about 1991 it would be bankrupt; if the money were paid back it would have another 12 years of life left, until about 2003, and that would be it; there wouldn't be any money left to pay for it. Are you taking that into consideration in making that comment, that that would just phase out the CPP and that would be the end of it?

Mr. Lewis: No, I'm sorry. What I meant was that we shouldn't increase the benefits out of the CPP. We fully realize that we are going to have to increase up to at least nine per cent at some time starting in the 1990s on through. But if we were to increase the Canada pension plan benefits to cover something like the full amount of the average industrial wage or two times the average industrial wage or to increase the benefits to 50 per cent of the average industrial wage, the increase in the contributions would be so much greater than what we will have to see just to fund the existing promised benefits.

Mr. Epp: So what you would like to see is just to leave the benefits the way they are and--

Mr. Lewis: We will have to start paying for them--pay as you go.

Mr. Epp: Okay.

Mr. Lewis: This would not create the large dislocation that was referred to earlier in which all of a sudden we will be looking at 13 per cent savings. This Canada pension plan as a pay as you go will not increase the savings; it just changes the consumption from one area to the other area.

Mr. Chairman: Thank you, gentlemen, for coming today. As you no doubt realize by now it was a very worthwhile session. We appreciated the exchange and the point of view you have made and the information you have given us. Again, we appreciate your attendance.

We now have a delegation from the Ontario Public Service Employees Union: Mr. Sean O'Flynn, president; Mr. Paul McCrossan, consultant; Mr. John O'Grady, administrative assistant to the president; and Ms. Evelyn Sammons, first vice-president.

Mr. O'Flynn, we're in your hands. You will be comforted to know that, I'm sure. We have your submission, and you can touch on the highlights or use whatever approach you like.

Mr. O'Flynn: I would like to thank the committee for giving us this opportunity to make a presentation to them. I might begin by introducing to you the people who are with me. On my right we have Evelyn Sammons, who is first vice-president of the union; on my extreme left we have Paul McCrossan, professional actuary and a vice-president of W. M. Mercer Limited; on my left we have John O'Grady, who is my executive assistant and who has in the main put this brief together.

Mr. McCrossan prepared for our organization a study of the indexation of pension benefits. The complete text of his report is contained in our brief and appears as appendix number two. I would like to add that Mr. McCrossan's involvement in the preparation of our submission was limited to his advice on the subject of indexing pension benefits. I know that this venue here is no stranger to him.

Our brief was made available to you some days ago, and I am sure you have had some opportunity to peruse whatever parts of it are of particular interest to you. I do not intend to read it to you.

Mr. Peterson: Some of us did not get that until last night or this morning. I regret that very much.

Mr. O'Flynn: It was here Tuesday morning, I understand.

Mr. Peterson: Well, we didn't get it, so feel free to make your points.

Mr. O'Flynn: What I would like to do is outline for you our main concerns. Is that okay, Mr. Chairman?

Mr. Chairman: Yes.

Mr. O'Flynn: The first issue that we address is the question of indexing pension benefits. It is our view that a pension plan which does not index benefits fails fundamentally to meet the needs of retired workers. If employer-based pension plans are not sufficiently flexible to index pension benefits then employer-based pension plans must be replaced. Our proposition is as simple as that. It is our submission to the select committee.

11:30 a.m.

We will demonstrate a simple principle. As inflation rises and as the interest rate rises along with it, the cost to an employer of providing a pension plan falls. Inflation imposes a severe economic burden on the elderly while it reduces the compensation costs of the employer. Indexing pension benefits simply restores an employer's costs to what they would have been in the absence of inflation. In introducing indexation, the government of Ontario took a progressive step, of which it should be justly proud.

Interjection.

Mr. O'Flynn: Absolutely. I have to smile when I find myself praising the Ontario government.

Mr. Riddell: You do not have to. There are more accolades coming.

Interjections.

Mr. O'Flynn: I will have the best job in the province. But now that it is done I never thought it would drop so easily from my lips. It is amazing.

Interjections.

Mr. O'Flynn: That is right. There will be more about that later.

We recognize that the manner of financing indexation is a valid subject of concern. The current method of financing indexation through the Superannuation Adjustment Benefits Act provides a pay-as-you-go mechanism along with a defined liability which is difficult for the private sector to adopt.

In an effort to commence an informed and reasoned dialogue on the best approach to indexation, we have suggested to the members of the select committee that they explore the excess interest approach to financing inflation adjustments to pension benefits. This approach is equally applicable to the private sector. It defines an employer's liability in terms of the earnings of the pension fund's assets.

Several days ago the Ontario Federation of Labour urged you to make the excess interest approach to indexation mandatory for all employer-based plans. We note as well that the Canadian Life and Health Insurance Association has embraced this concept. We have offered this as a constructive approach for the public sector employer-based plans. Mr. McCrossan is here with us today to discuss this approach with you in more detail.

I want to turn to some other concerns that our members have about pensions.

Interest rate: In our submission we have presented evidence to demonstrate that the interest rate imputed to the public service superannuation fund is lower than that which a conventionally managed fund could achieve. As you are well aware, the PSSF is limited to acquiring or having imputed to it only one kind of asset, 25-year nonmarketable province of Ontario debentures. This portfolio is utterly illogical.

In the first instance, it raises the employer's reported costs. In the second instance, it causes frustration amongst the employees who contribute to the plan, and in the third place, by raising the employer's reported costs, the lower interest rate invites invidious comparisons with the private sector.

The interest rate question is central. The present formula must be changed. In our submission we have discussed a magnitude of interest losses which are being imposed on the PSSF. We have also discussed approaches to solving this problem.

The second issue I want to address is the question of comparability to the private sector. In our submission we have tabled data to show that there is no extreme disparity between the public sector and the private sector. I invite you to examine that data.

I want to comment, however, on one important point. Where did anyone ever get the idea that the private sector should be the benchmark for determining equity in the area of pensions? Surely one of the reasons that the government established the royal commission was because there are obvious weaknesses in the private sector plans and in the limited coverage, benefits and portability that these plans offer. Surely the reason this committee was established was to canvass and consider opinion on the royal commission's approach to the reform of employer-based plans. That reform is needed, and that it is needed has never been in doubt.

Is it not inconsistent, on the one hand, to recognize the need to reform the benefits levels, indexation positions, vesting and coverage of private sector plans and then, on the other hand, to denigrate the public sector plans as Cadillacs and urge that they be trimmed down?

Let me make a few remarks about the Cadillacs. In our submission we have provided you with the estimated benefit levels of recent retirees under the public service plan. I urge you to review that section of our brief. The average member of our union who achieved normal retirement age of 65 received during the last year the princely pension sum of \$4,132 per year. Only the CPP and the OAS stand between the pensioner and poverty.

I recognize that for people who are in management the situation is different because, with higher salaries and longer service periods, a career-based plan leaves them relatively well off. Moreover, many of these managerial employees are sufficiently

well off under the present plan, but they opt for the very costly early retirement provisions. We have estimated that early retirement pensions for managers run between \$14,000 and \$18,000 a year. Put quite simply, the present plan works quite well for managers. Indeed, the managers impose a far greater cost burden on the PSSF than do the average workers, yet it is the average worker who is accused of having a Cadillac pension plan.

Let us put the costs of the public service pension plan on the table where everyone can see them. Let us split that plan into two plans, a managerial plan and a regular employee plan. My members, your employees, are tired of being publicly denigrated for having a pension plan which affords them benefits that are far from extravagant. If the government wants to run a managerial pension plan as part of its compensation policy, then let them do so openly. We are tired of having the costs of the managerial pension plan laid at our doorstep.

The last topic I want to address is collective bargaining and superannuation. With regard to collective bargaining, the situation must surely be offensive to any person of goodwill. Payroll deductions are mandatory. Only five per cent interest is paid on refunds. The interest rate imputed to the pension fund is substandard. No aspect of the plan design is subject to negotiation. No aspect of fund management is subject to negotiation.

The costs of managerial pension plans are rolled in with the costs of pensions for average employees. To add to this farce, the employees are denigrated for exploiting the public by having a Cadillac pension plan. I would like to propose to you a concept which is certainly not new to most of you and which might have some relevance here. It is the concept of property.

When you take money off my paycheque you are relieving me of my property. I do not think it could be put any clearer. I have an obvious property right and interest in what you have taken out of my pay packet and put into the pension fund. Surely that is self-evident. Surely my property rights deserve to be recognized. I put it to you that it is time to stop denying the existence of our employees' property rights in their pension funds. It is time to make those pension plans negotiable and it is also time for the question of the control of these pension funds to be placed at the top of that agenda.

11:40 a.m.

That summarizes the comments I have to make. Mr. McCrossan, who represents us here in an actuarial capacity, or John O'Grady, myself or Mr. Sammons will respond to your inquiries or your questions.

Mr. Chairman: Thank you, Mr. O'Flynn. That was very interesting. Mr. Peterson will lead off with the questions.

Mr. Peterson: I just regret not having had this thing before because I am sure it is a very substantial brief. It addresses a number of questions that we have to address. We certainly have heard Mr. McCrossan's associate speak on the excess interest approach, which is one that fascinates me particularly.

Is it your position, sir, with regard to the PSSF, if the excess interest does not reach the rate of inflation that year, you are below what you would be entitled to under the present scheme, with an automatic indexing up to eight percent, that you would opt for the lower? You want to get rid of the present system and bring in an excess interest system into the PSSF? Is that your position?

Mr. O'Grady: If I could address your questions, specifically, right now the disadvantage to employees is the eight per cent cap. Obviously, the advantage to them is that there is a degree of automaticity regardless of earnings on the fund. Certainly, having looked at the excess interest approach, which offers the prospective and potential advantage of penetrating that eight per cent cap under many circumstances, as well as the risk of not producing sufficient funds even to meet the eight per cent cap, we have looked at the balance of probability and concluded, frankly, that people would be better off under the excess interest approach.

Mr. Peterson: You are willing to take the downside risk on that.

Mr. O'Grady: We are certainly not prepared to look at reducing pension benefits in the event that the interest rate fails to produce any excess earnings.

Mr. Peterson: I am sorry; you are or you are not?

Mr. O'Grady: By downside risk I presume that you mean, are we prepared--

Mr. Peterson: If this fund does not perform enough and there is not enough excess interest, yet your inflation rate is running at a high rate that would entitle you to the automatic eight per cent, you are telling me that you are prepared to take a downside risk of not getting all that you are entitled to now for the potential upside benefit of getting more than you are entitled to now.

Mr. O'Grady: That is correct.

Mr. Peterson: That is interesting.

Mr. O'Grady: In the implementation, such as the excess interest approach, it may be desirable to create some sort of a facility to smooth out these bumps and lags to perhaps operate on some sort of rolling average principle, so that in fact the risks are spread out over some time, as would be the potential advantages.

Mr. Peterson: You want to keep the banking provision, or whatever you call it, so you can roll it forward or average it out over a period of years.

Mr. O'Grady: Something like that I am sure could be worked out.

Mr. Peterson: Is that a necessary part of your submission?

Mr. O'Grady: It is not an essential part of our submission. It is clearly something that we would intend to negotiate with our employer in the course of addressing the manner in which indexation is funded or provided.

Mr. Peterson: Is it your opinion that the other--and we have not heard from some of them--major public service funds would take the same approach?

Mr. O'Grady: The other funds that are covered by the Superannuation Adjustment Benefits Act are the teachers', and I honestly am not aware of their position; Ryerson, and again, I am not aware of their position; and I believe the Legislative Assembly people are covered as well, but I am not aware of their position either.

Mr. Peterson: Supposing we go for mandating of excess interest, we are all exposing ourselves to the ability of the fund manager, et cetera, at that point. Paul McCrossan, what is your opinion about a number? We have heard some people say six per cent. I think the life insurance guide, I read in the paper, says you can generally work at six per cent. I think Mr. Coward said four per cent. If we devise legislation, do we need a number? How would you handle that?

Mr. McCrossan: I think you probably do need a number. The choice of the number depends on both practical and theoretical considerations. It depends on what you want to do with the excess interest approach and whether your prime concern is immediate affordability or social equity, in other words, from what side you come at the problem.

Using the studies in the royal commission and studies in the other four reports, primarily the Lazar and the economic council study, it appears to me as if a long-term goal would be a four per cent figure on the private sector. Recognizing the restricted nature of the investments in this particular plan, a two and a half per cent figure is appropriate, and that is on the basis of the expected real rate of return. If the pensioners were not given the excess over what they could expect, which had given a limited investment, in fact they end up subsidizing the government's current operations.

With respect to the immediate implementation of it, I think that it is likely that an excess over six could be brought in at very little apparent cost right now. I say apparent cost because most pension plans are funded assuming long-term rates of interest at six per cent or seven per cent. So, while you are foregoing future gains, they are gains which you have not anticipated so far.

Then you get down to the practical political consideration of should you go for a long-term rate immediately, should you go for something that is affordable immediately, or should you stipulate some sort of graduation--

Mr. Peterson: Or adjust periodically.

Mr. McCrossan: Or adjust periodically. That is right.

Mr. Peterson: By regulation. Which of those approaches would you recommend to this committee? We are dealing with across the board, not--

Mr. McCrossan: Are we talking private sector, or specifically this--

Mr. Peterson: I am operating on the assumption that you wanted to be treated the same way as the private sector in this regard.

Mr. McCrossan: The recommendation which we have given to our clients at Mercer's is that they should look at an excess interest approach with an initial rate no higher than six per cent and reducing to something like four per cent over a reasonable period, which I say is the end of the decade. I think that provides something that is workable.

There are a number of plans, and I cited two of them in my study, which are already on a four per cent excess interest approach. I think it is generally recognized that a four per cent interest will provide the type of protection we are talking about. Mr. O'Grady was talking earlier about whether they were prepared to take the downside risk. You have to ask the philosophical question of what are post-retirement adjustments trying to do. My submission to them, and I think they accepted it, was that it provided some sort of insurance--protection against the future.

This plan, as currently designed, has sort of the opposite features to traditional insurance. It provides full recovery of losses up to what is now a very modest maximum, whereas I think most people would think of an insurance plan as something that has a deductible so that the insured shares the losses up to some point, but has losses covered up to a much more substantial amount. The plan they now have is structurally defective.

Mr. Peterson: I am very sympathetic with a number of points you raise, such as the below market rate of return that you are getting and employee representation. The property rights concept is an interesting one that we will pursue. The government's response to a number of these questions will be that they are guaranteeing it and their effective contribution rate is extremely high now.

I am sorry I have not had a chance to read through what you have given us, but the effective contribution rate in a number of the corporate plans is on the order of 15 per cent. The teachers' is around 15 per cent; Hydro is around 15 per cent; and yours is around 13 per cent or 14 per cent, is it not?

Mr. O'Grady: Well, one can play with the numbers to no end, and the awkward aspect of answering the question definitively is that Superannuation Adjustment Benefits Act is not funded on a conventional procedure, and so one has to try to figure out what the cost of that is.

The only thing we can really go on is reported costs, which are printed, and the actuarial projections. If you do that, then I would turn you to, first of all, page 22 of our submission. What we have done there is take the survey done by the Financial Executives Institute of plans which they sampled and noted the payroll cost figures for employers which they demonstrate there, and compared those to the same figures which the royal commission in one of its studies puts forward. I believe the PSSF figure that you see on table 1 of page 22, 9.94 per cent, is the one that was done by Treasury, which the royal commission then picked up. It is in that study which was done by Dr. Kelly. I think it's volume seven.

11:50 a.m.

That is, admittedly, 1977-78. The issue is comparability with the private sector and I don't have ready access to more recent private sector cost figures. If you take a look at the actuary's report, then I would turn your attention to page 28. What we are dealing with there is the cash flow figures which are an appendix to the 1979 actuarial report, which is the most recent one available. It was released in January 1981. That report does not speak in terms of percentage of payroll. It speaks in terms of absolute dollars in a cash flow situation, and those numbers are on a previous page, page 27.

What I have done is to translate those numbers, as best I can, into percentage of payroll figures to give you what is certainly a fair order of magnitude of the cost as seen by the actuary. That certainly suggests that the costs are not dramatically out of line with significant private sector employers.

I would go even further than that and note, as well, some of the implications of the point that our president raised about rolling into the PSSF the cost of managerial pension plans. There are a number of reasons why the pension plans for managerial employees are more expensive.

First of all, the career patterns, the service periods, tend to be longer. Secondly, the average salaries tend to be higher; and, thirdly, because the benefits that are going to come out of the plan are higher for the managerial employee, the incentive to utilize the early retirement provisions is vastly greater, and that happens to be a very expensive aspect of the plan. On top of all of that, because of the integration formula, the higher the benefit level, the higher the proportion of that benefit which is paid out of the PSSF.

I submit to you, simply on the basis of those reasons and intuitively, that if we were to separate the plans and talk about the cost of the regular employee plan, those numbers would be even lower than what appears here.

Mr. McCrossan: Mr. Peterson, could I just explain one little bit? It deals with my part of the report, as well, and I think it dealt with the previous submission that was heard.

You mentioned the very high cost of the plan. There is a lot of debate as to what the true costs of this plan are. One of the things that I pointed out, and that I think the chief actuary of Canada has pointed out, is that in order to determine the costs of this type of plan, you have to look at the costs of the total benefits involved, both basic and post-retirement adjustments.

If you look at only one side, you can draw a very misleading conclusion as to the total costs. For example, if we were to get back to the days of zero inflation, the indexing provision would cost nothing, but the basic plan would cost substantially more. If we were to head to 20 per cent inflation, the cost to the percentage of payroll of the basic plan would drop drastically, but the post-retirement provision would tend to go up. The only proper way of determining the cost is to submit yourself to the discipline of looking at the combined benefits and doing a combined actuarial evaluation.

To be best of my knowledge, no such report has ever been published with respect to this plan, although one does exist with respect to the public service of Canada, the federal public service. The very absence of that report leaves people such as the previous delegation to conclude that the costs of the indexing proportion must be so high that the private sector couldn't conceivably match them. I don't think that a realistic examination of the figures would lead to that conclusion at all. What is needed is facts rather than sort of these horrible judgements, "This must be terrible. We couldn't match it."

Mr. Williams: A supplementary, if I might, on this excess interest matter, Mr. McCrossan, you point out in your report that this approach is not new. You refer to Canada Life and the TTC as examples of organizations that are using it. You mention that the federal authorities have looked at it favourably and the Quebec people as well. When you say it is not new, how extensively has it been used by different organizations and groups? Is it really a proven commodity to date? How long has it been in use by such companies as the ones you mentioned earlier?

Mr. McCrossan: I cannot tell you exactly but I think Canada Life has adopted it since the war. The TTC certainly has had it in for at least a decade, and considerably longer now. Is it a proven commodity? Yes, I think it is a proven commodity. I think it is implicitly being used by a large number of employers to determine the amount of money available for post-retirement upgrades. As I have pointed out in my report, something like three quarters of private pension plans are making post-retirement adjustments. The average adjustment being made is about 60 per cent of the cost of living, or has been so. There are Treasury Board figures that I am referring to. Those are the types of levels of protection which are provided by an excess interest approach alone.

Mr. Williams: You say about 60 per cent of private plans?

Mr. McCrossan: Three quarters of the private sector employers are making that approach.

Mr. Williams: Is this the true excess profit approach that you are talking about?

Mr. McCrossan: No, on the contrary. I think there has been a reluctance on the part of the private sector to go to formal plans. Now I am expressing a political judgement, I guess. As long as governments were sitting there with unlimited cost-of-living indexing--at least the federal government--there was a feeling that if they committed themselves to something formal it was the thin edge of the wedge, and as long as the government refused to submit itself to discipline they were better off retaining their options. So in practice I think they have been doing it, but they have not been doing it on a formal basis.

Mr. Williams: You are suggesting that policy in the public sector is inhibiting the private sector from making more extensive use of the excess profit approach.

Mr. McCrossan: Yes, I think that is the conclusion that I have drawn.

Mr. Peterson: I have just one final question. It is sort of a weird duck. It does not fit. It does not work the way of other plans in terms of the disposition of those funds and how they are treated by the Treasury. Are you advocating we treat it the same way as teachers' superannuation, at least get it out of that kind of transaction? Number two, I understand that you are unhappy with the rate of return paid by the Ontario government. Why would you not stand up and say that the stuff should be invested at arm's length and not be invested in provincial securities and nonmarketable securities. Why would you not say you are tired of subsidizing the government but you avoid that question by saying you have no judgement on it. Why don't you?

Mr. O'Flynn: We do not avoid the question.

Mr. Peterson: Yes, you do. You avoid it by saying you do not have any judgement on the investment of those funds.

Mr. O'Flynn: I tell you we have not avoided the question. What we said is that at the moment we have no faith in the matter at all. What we are saying is you should change the legislation so that the whole matter is on the table and subject to collective bargaining with, of course, some punch behind the right to strike, not to enforce demands. That is a different matter.

Mr. Peterson: There are a lot of things in here that you do not have any control over but you are coming here and making a suggestion.

Mr. O'Flynn: That is right.

Mr. Peterson: On that particular issue, why did you not bring a view to us?

Mr. O'Grady: Mr. Peterson, in fact we did in the submission.

Mr. Peterson: Where?

Mr. O'Grady: What we have said is that from the point of view of the employees the fundamental issue is the rate of return imputed to the assets.

Mr. Peterson: I understand that.

Mr. O'Grady: You can address that in a couple of ways. The first thing we could do is simply have a different and better formula. That sort of approach is acceptable to us, philosophically, although obviously we have to take a look at the formula that is on the table. Another approach is to simply manage the PSSF as a conventional fund. Obviously, there is some transition problem involved there. The PSSF already holds assets, and it is going to take a period of time for that portfolio to become overwhelmingly in the private sector.

12 noon

We are open to that approach. There are clear and obvious transitional problems that we want to talk about with our employer. On top of that, since we take the view that the retrospective effect of inadequate interest earnings is that the capital value of the plan is too low, then that capital value is going to have to be upgraded in some manner as well. So we are open to the approach, which I believe you are implicitly suggesting, of putting the funds in the private marketplace but we are not advocating it.

We are saying from the prospective of employees the crucial issue is the interest rate imputed. Then we are prepared to look at ways of dealing with that. If the government is not prepared to entertain a better formula, then clearly we have to say, "We would rather put our money elsewhere" with the emphasis on our money.

Mr. McClellan: I have one question on excess interest, and then I'll look at your comments with respect to PURS. Do you have any sense of excess interest projects that are in effect now, whether there has been a problem in spreading excess interest between ad hoc adjustments and benefits, on the one hand, and in decreases in employer costs, on the other hand, and whether there isn't a potential problem there that excess interest will simply be used to reduce the employer costs? How do you make that fail-safe, or is that a problem?

Mr. McCrossan: If I can refer you to the part in my report that talks about the report of the government's chief actuary, he indicated that there are three main variables: the rate of interest, the rate of salary increase and the cost of living. If all of them escalate relatively, what happens is that the total cost of a plan with indexed benefits, if you will, remains reasonably constant. If you do not index the benefits, then the cost of the plan as a percentage of payroll falls.

I think the conclusion you arrive at is that if there is no formal plan to upgrade pensioners in retirement and if an employer does not follow an ad hoc plan to do the same thing, then it is quite likely that the employer's cost as a percentage of payroll will fall.

Mr. McClellan: Have you documented that in any of the research work that you have done?

Mr. McCrossan: Yes. The basic documentation, as I say, is in the report evaluating the federal public service pension plan, which is produced by the government's chief actuary, Walter Riese. In fact, I have referred to the figures, the conclusions, from that in my report, which is appendix two right at the end of this.

Mr. McClellan: And you did find that employers were using excess interest to reduce their costs, in some cases at least, rather than making ad hoc adjustments?

Mr. McCrossan: I think the conclusion that you would arrive from the Treasury Board study is that with 75 per cent of the employers making those adjustments the vast majority are, in fact, trying to stabilize their cost and passing it through.

Mr. Mackenzie: Did you say it amounted to 60 per cent of the cost-of-living increase?

Mr. McCrossan: Yes.

Mr. Mackenzie: And of those, 75 per cent of employers had made some adjustments?

Mr. McCrossan: That is right. Obviously, the 25 per cent who did nothing have used the excess interest earnings to reduce their costs, or possibly they experienced losses on the marketplace. It is quite possible they have invested in stocks which went down.

Mr. O'Grady: If I could just add a comment there, I would not want the impression to be drawn that we are advocating the excess interest approach and acknowledging that that only provides, on average, 60 per cent protection.

First of all, on average, it would produce better protection and, second, you must keep in mind that the employee contribution rate in this plan is significantly higher than in the case of other plans that are using the excess interest approach. Typically, those plans would be five per cent or six per cent. We are seven per cent: six for the PSSF, one for SABA.

Mr. McCrossan: In fact, if you look at the conclusions in the report, taking account of the level of contribution, it looks as if, if an excess interest approach were adopted immediately with respect to this year, there would be sufficient funds next year for about a 9.1 per cent increase next year as opposed to the eight per cent cap. That in very large part reflects the fact that the employees are contributing more. To my knowledge, there are no plans outside the private sector where the employees are contributing more for some protection.

Mr. McClellan: Other people may want to come back to the excess interest thing, but I was interested in appendix one on

page 49 of your brief. I may be wrong, but I think you are the first delegation that has come forward with at least the preliminaries of a detailed analysis of the PURS proposal. Despite their great enthusiasm for PURS, even the representatives of the trust companies did not have any detailed analysis, although I am sure they could speculate on what lay ahead for them.

Referring particularly to point five of the appendix, you have had some work done for you, some work that seems to challenge the assumption that PURS would provide replacement income in the order of 19 to 20 per cent of average industrial wage for an average industrial wage employee who contributes for the required 47 years. Could you elaborate a little bit on that?

Mr. O'Grady: We have not so much challenged the figure of 19 per cent of the mature PURS plan, which matures 47 years after implementation. What we have said is take a look at that 19 per cent and ask what assumptions that must rest on. Among other assumptions, it must rest on a particular relationship between the rate of interest and the rate of wage increase.

Then, if you take a look at the work done for the commission, you can see that it is assuming a certain general relationship between the rate of interest and the rate of wage increase. If I am not mistaken, the relationship is that, in general, the interest rate will exceed the rate of wage increase by one per cent. What we have said is not to dispute that, if that happens. The mature PURS plan produces a 19 per cent income replacement for the worker earning the average industrial wage and having an uninterrupted career.

Mr. McClellan: Is that assumption that wages will exceed inflation by one per cent?

Mr. O'Grady: No, that wages will exceed the interest rate by one per cent. What we have said is, "That is a very interesting assumption. Why on earth would you make it?" Rather than take a look at the forecast reasons, the prospective reasons for making that assumption, we have said, "Let's take a look at some historical experience and see if, in fact, that crucial relationship between the rate of wage increase and the rate of interest is stable and if it is in the same order of magnitude as the one you are assuming."

The answer is essentially that it is not stable. That means that a PURS-type program cannot offer a reliably predictable income replacement proportion. Philosophically, we take the view that that is what pension policy is all about, a predictable income replacement. If you can't do that, you really haven't passed the PURS test. So we say the commission has provided no basis whatsoever for suggesting stability in that crucial relationship or a reliable 19 per cent figure.

Mr. McClellan: Let me pursue this just so that I understand it. On page 51, in the income replacement proportion table at the top of the page, you indicate that with a relatively small variation of the relationship between wage increase rates and interest rate increases you could have a tremendously high replacement--

Mr. O'Grady: And it might be complicated further by saying that over that 47-year period, if the relationship is unstable, the effects will be further different, depending on when those changes from the assumed relationship take place.

Mr. McClellan: Yes. The replacement could be as high as 26 per cent or it could be as low as 12 per cent, depending on very small variations in that ratio between wages and interest.

Mr. O'Grady: They are not that small, but historically they have happened.

Mr. McClellan: Just so I understand the column, wage increases minus interest rate, what kinds of differentials are we talking about in that column? Do you know? Do you have that material with you?

Mr. O'Grady: Do you mean at this very moment? I am not sure I quite understand you.

Mr. McClellan: I do not understand the base numbers.

Mr. O'Grady: They can be any base numbers at all within a reasonable assumption range. I do not happen to have the work sheets with me but I can certainly make them available. I did not do the work and I credit someone else with it.

Mr. McClellan: I realize that. I would be interested if we could have it to have the complete study or as much of the study as it is possible to obtain. We have asked Mr. Bentley to do an analagous study of the PURS program and it would be interesting to compare it with the work you have done. It illustrates a real concern that we have expressed repeatedly that the level of benefits under the PURS program is totally unpredictable. I will just leave it at that for the time being.

Mr. Mackenzie: There are two things that struck me that I wanted your comments on briefly. First, on page 39, in terms of the coverage I guess what you are saying for a start is that 50 per cent of the males and 68 per cent of the females are not going to attain a full pension out of the PSSF plan.

Mr. O'Grady: Yes. Those are the numbers we came up with in looking at the data that was available to us. Miss Aboud was here on August 11 going over the report with you--and I just quote from the transcript. She is referring, I believe, from the context to the public service superannuation plan. On page 9 it says: "Not less than 30 per cent are vested; less than 30 per cent get any kind of pension." In fact, the numbers she had, which I assume are based on more data than was available to me, suggest the situation is worse.

Mr. Mackenzie: So this is one of the few indications we have that we do not have the coverage we are led to believe we have, even in what is supposedly a good plan.

Mr. O'Grady: That's right. Effective rates of coverage are much lower than apparent rates.

Mr. Mackenzie: "Effective rates" are the key words but I think that is important too.

The other thing is your third point in summary. It is something I have been concerned with from the beginning. There is no question then that one of the basics we have to put to rest for all time is the fact that your pension payments are in effect yours or deferred wages.

Mr. O'Flynn: Sure. I think the best way to look at it is that it is (inaudible).

Interjection: Pay packet.

Mr. O'Flynn: It is ours; it belongs to us.

Mr. Mackenzie: Surprisingly enough, barring the board of trade and I think one other group, there seems to be a growing acceptance and an even strong acceptance of it. I think that certainly colours some of the decisions you make in terms of improvements either in the private plans or what we do in terms of public plans.

Mr. O'Flynn: We were like a voice in the wilderness beating that drum for years and years. As long as I have been involved with this union, I have been beating that drum for some control over pensions and for respect and recognition that it is the members' money and they have property rights on it.

Mr. McClellan: Just one supplementary. For the record I assume--and I should ask you--that you support the position of the Ontario Federation of Labour with respect to long-term reform of the pension system lying in the direction of expanding the Canada pension plan.

Mr. O'Flynn: As a vice-president of the federation, I was a party to that.

Mr. McClellan: Right. I thought it was important to put that on the record because if it was not, your position would undoubtedly be distorted at some point.

Mr. O'Grady: In some sense, I suppose. You can even look at the public service plan.

Mr. Chairman: That is not a very fair comment.

Mr. Mackenzie: But a very accurate one.

Mr. McClellan: I was just getting a little tired of the kind of stuff that is being put into my mouth about the (inaudible) of CPPs. I started to correct the record on that.

Mr. Chairman: Mr. McClellan, you are quite able to defend yourself and you are doing so admirably.

Mr. McClellan: I know that.

Mr. Chairman: I thank you very much. We certainly appreciate your presentation and the support you have given to your statements. I think the research has been admirable and we appreciate your coming forth. You have been very helpful.

The committee adjourned at 12:15 p.m.

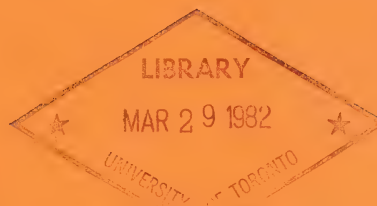
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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

THURSDAY, AUGUST 27, 1981

Afternoon sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. Prince Edward-Lennox PC)
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Riddell, J. K. (Huron-Middlesex L)

Clerk: White, G.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Canadian Life and Health Insurance Association
Devlin, G., Executive Vice-President
Speed, F.W., Vice President and Actuary
Panabaker, J.H., President, Mutual Life of Canada
Jackson, E.S., President, Manufacturers Life
Dowsett, R.C., President, Crown Life
Rhind, J.A., President, Confederation Life

LEGISLATURE OF ONTARIO
SELECT COMMITTEE ON PENSIONS

Thursday, August 27, 1981

The committee resumed at 2:07 p.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I see a quorum. We have with us this afternoon the Canadian Life and Health Insurance Association. I am wondering if someone would like to introduce the delegation and then present the brief in any way you would like, remembering that the members are anxious to ask questions.

Mr. Panabaker: Very good, Mr. Chairman. Thank you very much. My name is John Panabaker. I am president of the Mutual Life Assurance Company of Canada from Waterloo.

With me are three Ontario members of the association's committee on the future of the pension system. On my right is Mr. Rob Dowsett, president of Crown Life. On my immediate left is Mr. S. Jackson, president of Manufacturers Life. On my far left is Mr. Jack Rhind, president of Confederation Life.

In addition, we have two senior members of the staff of the Canadian Life and Health Insurance Association sitting in the first row yonder. They are Mr. Gerry Devlin, executive vice president, and Mr. Frank Speed, vice president and actuary. At certain points in the afternoon we may ask one of these two gentlemen to take a place at the table and respond to some of your questions.

Mr. Chairman: Whenever you wish to bring in a fresh line, Mr. Panabaker, it is all right with us.

Mr. Panabaker: That is right. We have a defensive line, an offensive line and so on.

Mr. Epp: You are better off than the Argonauts.

Mr. Panabaker: I might begin by setting the stage and taking you through the summary brief. We are better than some organizations; we not only provide you with one brief, but with two.

Mr. Chairman: For the information of the members in case they have not discovered them, they are Exhibits 70 and 71 in your binders.

Mr. Panabaker: I might just introduce our thinking briefly to the members of the committee, and then we can spend the afternoon in fruitful dialogue.

I suspect that by about this time, members of the committee

are deep into the pension swamp. One consultant to the federal government who was brought into this question a few months ago spent a few weeks at it and described it as such because it was so complex.

I tend to think of the pension issue as more like the elephant in the old Ontario reader--you remember the poem about the blind man and the elephant; everybody came at the question from a different point of view. They said it was like a wall, a tree, a snake or whatever. No one saw it whole. I think the great danger in the pension question is that we do not see all the dimensions that it has.

I can identify at least six very key dimensions to the pension issue: the demographic, the social, the economic, the constitutional, the ideological and the ethical. If you want me to propound on the philosophy, I will be glad to stay here for as long as you want to talk about it. But I do not think that is the purpose of the afternoon. However, as we make our presentation, I think we must keep in mind all those different dimensions to the issue.

The Canadian Life and Health Insurance Association represents 125 Canadian life insurance companies who administer about 70 per cent of the private pension plans for Canadian employers, but those plans cover only about 13 per cent of the members of Canadian private pension plans. This is because we tend to service the smaller employers and the smaller plans. The larger ones tend to be independent.

Another point I would like to make by way of introduction is the perception that there is, somewhere, a pension industry. There is, in fact, no pension industry per se. There are various players like our industry, like the trust companies, whom I believe you heard from, like the consultants, the unions and the employers. It is very difficult to find any sort of commonality among all these different players. I think one of the reasons reform has been so difficult to achieve has been this very fact that so much of the interest, concern and approaches are related to these different groups of people.

A further introductory point that I think is important is the fact that there has been, over recent years, a very much changed perception of what is involved in a pension plan. It is not that many years ago that a pension plan was very much considered to be a means of rewarding long and faithful service. In more recent times the trend of thinking, and this was highlighted at the National Pension Conference, has moved closer and closer to thinking of pensions as deferred wages or deferred compensation.

Even in the best of that thinking, I do not think very many people have come all the way to saying that pensions are purely deferred wages. But the way people are regarding them today they are looking more and more at them in that kind of way.

The summary brief that you have sets forth the scope of what we would like to talk about this afternoon: our views on the

report of the royal commission and some additional comments on certain selected topics. This is dealt with in the supplementary brief at quite considerable length.

I should say first that we endorse the basic thrust of the commission's report, and that means that we accept the position that there should be substantial reform in the pension sector in Canada. We believe that steps should be taken to improve the income position of those already retired and that there should be particular emphasis given to the position of the single elderly. We do not believe that this is fundamentally an issue of pension reform, because many of these people went out of the labour force without significant private pensions because the private pension system had not matured, and, indeed, before the Canada pension plan itself had matured. So the problem of poverty among the aged is something that society should be addressing as resources are available, and that should be a top priority.

Our second view is that the Canada pension plan should in general not be expanded. However, we do recommend that two things be done with respect to the Canada pension plan: first, that the plan be brought up to its originally proposed scale as quickly as possible--that is to say, that yearly maximum pensionable earnings should be increased to the level of the average industrial wage as soon as it is feasible; and second, that the child-rearing dropout provisions currently found in the Quebec pension plan be incorporated in the CPP.

We are not advocating that the Canada pension plan, even the Canada pension plan at its present scale, should be increased to the full funding level. We think an appropriate and sensible way of approaching the question of funding the Canada pension plan should be a gradual increase in the contribution levels to a level that would be more representative of the cost of the benefits in a mature situation.

Finally, we think that legislative changes should be directed primarily towards making private pension arrangements more effective.

We would like to stress with the members of the committee that, despite all the work that has been done up to date, we are not satisfied that there is a clear picture of the characteristics of persons covered, but not covered by employer pension plans. For this reason it is difficult to determine which legislative changes would be most effective in increasing the retirement income from private plans.

For example, there is the question of whether or not people below the age of, say, 25 should be covered by a private plan, and are. Are there people here in the statistics so far who are considered not to be covered who are merely in a waiting period with their present employers, and so on and so forth. There is still not adequate statistics on that, in our view. Mr. Jackson may wish to say something further about that later.

If, in the view of the members of this committee, it seems that coverage is an important issue that has to be addressed as a

priority, then it is our recommendation that a system of mandatory private pension plans be implemented which would supplement the present public plans.

We have some concerns, however, about the PURS system, which was proposed by the royal commission, in its present form. We believe that it is rather too rigid: It locks everything into one single mold; it is in effect a savings plan. We would prefer to see a system whereby employer involvement could be combined with individual savings arrangements and where the present structure of the private pension system would be built on rather than supplemented to the degree that seems to be suggested by the royal commission.

Mr. Peterson: It's very important to me: Could you give us more details of what you have in mind if mandatory legislation--

Mr. Panabaker: Yes. We will be doing that as I go along.

2:20 p.m.

However, if a mandatory plan is put in on the kind of scale we would suggest, we think the committee should be very careful about the degree to which it imposes further constraints and legislation on the supplementary benefits beyond the mandatory plan.

One of the reasons for putting in a mandatory plan is the acceptance of the principle that in every employment situation the employer and the employee jointly are more or less responsible for a degree of the employee's post-retirement income and that society has a right to say that in every employment situation that responsibility exists. If that's the case, then any supplementary benefits over and above the mandatory plan should in fact be voluntary and be done more or less on the basis of mutual agreement between the union and the employer or between the individual and the employer as seems appropriate.

If, however, a mandatory plan is not brought in, then we think there is room for significant changes in the legislation governing pension plans. We will be discussing that in a bit more detail in a few moments.

Our association has already proposed and taken some important initiatives to make available approaches which would improve private pension benefits and coverage. We have introduced an arrangement to improve portability of private pension benefits and a copy of our material has been placed before you. We will be shortly making available through member companies a unified plan which we expect will increase pension coverage among employees of smaller employers.

Mr. Speed can tell you more about that if you are interested.

On the subject of inflation protection or pension indexing, our association endorses continuation of the present method of indexing public retirement income programs, that is to say the OAS and the CPP, and opposes the idea of any legislated requirements

for price or wage related indexing of employer sponsored pension benefits. We also believe that there are some serious flaws in the inflation tax credit proposal made by the commission. We suggest as an alternative that consideration be given to legislation requiring that investment earnings in excess of some established minimum interest rate be used to supplement pension income.

This is the so-called excess interest indexing and there are some problems with it which we might discuss in some detail later, particularly the question of retroactivity, but we believe this is the soundest way of approaching the question of inflation protection in the private sector. We endorse the commission's view that public service plans in Ontario should be subject to the same regulations, funding requirements, as private plans and should not be more generous.

A few more comments about the Canada pension plan; this question of the expansion of the Canada pension plan takes us to one of the fundamental ideological issues, one of the really basic gut issues that are involved, and that is to say, to what extent should society be collectively responsible for the pensions of its members. Our own approach, or my own approach--and I don't think the association has put it in quite these terms--is that a pension should be in fact a tripod: the tripod being made up on one side of the public plans for which society takes the responsibility and we take a responsibility for one another collectively, a second leg of the tripod being the employer sponsored plans and the third leg being private savings.

Given the uncertainties of this world and the long-term nature of any pension planning, I believe that the tripod approach minimizes the risks and offers the most likelihood that we will see a reasonably satisfactory result.

On pages three and four of the brief, you will notice some of the concerns we have about the CPP, particularly the demographic factors of the ratio of contributors to pensioners. Near the top of page four is stated a concern that we also have, which is if CPP were expanded on a fully funded basis enormous investment funds would be created and would change the nature of the Canadian economy and Canadian society.

The third point is the disruption of the private pension plans which are at the present time a significant source of capital for Canadian industry and housing. The final one is the question of subsidies in the Canada pension plan which are referred to sometimes as upside-down welfare since they tend to subsidize those with higher earnings more than those with lower earnings.

Then there is the question of mandatory private funds. This brings out one of the other really basic issues, which is, not to what extent society should collectively take responsibility for everybody's pension, but to what extent society should say to me and to you, "You must set aside some of your income during employment years in order that you will not become a charge to society after you retire." That really is the question of mandating, this philosophical debate over the degree to which society can or should make that kind of judgement.

If mandatory private plans are decided as being the appropriate approach, then we believe that a system whereby every employer should establish a plan that meets the minimum standard should be considered as an alternative to the rigid PURS proposal.

Mr. Peterson: You do not have an opinion on the basic question whether we should or shouldn't. You are just saying, "If we do, then this." What are you saying? What is your opinion on the gut question?

Mr. Panabaker: The association--

Mr. Peterson: You have avoided it twice so far.

Mr. Panabaker: I have avoided it twice because I do not think we have enough information to make the final judgement at this point, despite all the studies that have gone forward.

Mr. Peterson: Everybody leaves all the rotten questions to us.

Mr. Panabaker: I beg your pardon?

Mr. Peterson: Everybody leaves all the tough decisions to us.

Mr. Panabaker: I think those are appropriate decisions for our representatives to make.

Mr. Peterson: You do not have an opinion on that basic question?

Mr. Riddell: If we make the wrong decisions we get hell.

Mr. Panabaker: Exactly. At the National Pension Conference we took the line that it looked to us as if it would be necessary to have a mandatory plan on the basis of the information regarding coverage that seemed to be available at that time.

Thinking about it further, we are no longer quite so sure that the mandatory plan is required. Our approach over the last year and a half that we have been working on this is that it looked as if there was a problem with coverage. Under those circumstances we tended to be driven rather reluctantly in the direction of a mandatory plan. That is about all I can tell you.

Mr. Peterson: You are saying now there is not a problem with coverage?

Mr. Panabaker: I beg your pardon?

Mr. Peterson: You are saying now perhaps there is not a problem with coverage, or at least you are reconsidering that question. There has been a considerable difference of opinion on that question by people coming before this committee.

Mr. Panabaker: I would like Mr. Jackson to comment on that question.

Mr. Jackson: Yes, Mr. Chairman, there have been a tremendous number of commissions looking into pensions, and a lot of studies. It is astounding to me that the one question that has not been well researched in Canada is the question of the characteristics of the uncovered population. We have recently been up to Ottawa and talked to Mike Kirby about this whole issue and the provincial-federal relations and suggested to him that it would be easy for the federal government to do a special survey on this question. He is considering that now.

But the type of survey we have in mind is the survey that was done for the President's commission in the United States--there is a President's commission on pensions, I am sure it has been referred to at previous hearings. There are some statistics in the United States which give you sort of a clue as to what the situation might be here. Obviously, you transfer American figures to Canada with peril.

My own view, operating in both Canada and the United States is that these are the sorts of things that I would expect out of such a survey in Canada, but I think it is important we get those Canadian statistics. In 1979 there were 34 million private wage and salaried workers not covered by pension plans in the United States. They then give some of the characteristics of them, which I think are important.

The two most important statistics, I think, are that 58 per cent of them were in firms with fewer than 100 employees. I would like to see that broken down. I would like to know if you went down to 25 employees, what sort of a population it would have. My own feeling is that a very high proportion of the uncovered people who should be covered are in that small employer group. That raises some very important questions I think.

2:30 p.m.

The other important statistic is the income level and it is more important in Canada than it is in the United States because of the characteristics of our social insurance scheme. We have old age security, which is a flat benefit, and then a Canada pension plan on top. It is our view that old age security and Canada pension provide a very good base and a sufficient replacement ratio that there is no need for additional coverage if you are at or below the level of half the average industrial wage, which is around \$8,500 right now. So if you are earning \$8,500, first of all you cannot afford to make contributions and, second, when you retire you will get a very high replacement ratio with the Canada pension plan and old age security. If that is not satisfactory then it will be supplemented by Gains and GIS.

The fact is that in the United States 28 per cent of the uncovered earn less than \$5,000 and 37 per cent earn between \$5,000 and \$10,000, so earning less than \$10,000--which is the closest figure I have to the \$8,500 of half AIW--are 65 per cent.

Mr. Epp: These are family incomes?

Mr. Jackson: These are individuals I assume. I'm sorry,

I just have a summary here. So 65 per cent of the uncovered population is earning less than \$10,000. I think those are the two most important things, that most of the uncovered are with small employers and a fairly significant percentage of them earn a level of wages where they cannot afford to make contributions to a mandatory plan on top and there is very little need for them to have another mandatory plan.

I guess that is the sort of thing that drives us to the question that if you were to have a mandatory plan--I guess I am anticipating the review that Mr. Panabaker will read, but we are suggesting that if you have a mandatory plan it only applies to incomes above a half AIW. It would really apply mostly then to small employers and there are a number of implications in that. What does that do to the competitiveness of small employers? A lot of them are marginal employers and will this force them to go out of business? A big part of it is the complexity as much as the cost. A lot of these small employers are concerned about the complexity. I know you have had a lot of discussions with the small business people and are probably familiar with that problem, so maybe I should stop right there.

Mr. Chairman: We may be coming back to you after you have finished with your presentation. It is an area of interest.

Mr. Peterson: The 34,000 workers, does that represent the work force--

Mr. Jackson: It's 34 million.

Mr. Peterson: What percentage of the work force is that?

Mr. Jackson: Here is another way of looking at it. The percentage of all employees covered by private plans is 42 per cent; employees aged 25 and over, 47 per cent are covered, and if you take the ARISA standard, which is the pension standard in the United States, which is more than one year of service and 1,000 hours of employment per year, 58 per cent are covered. What this is really referring to is 42 per cent being covered and so this is 58 per cent of the workers in the United States. Fifty eight per cent are uncovered and 58 per cent is equal to 34 million, so 100 per cent is something like 60 million.

Mr. Peterson: Do you suspect those figures are about comparable in Canada? Is that what you are telling us?

Mr. Jackson: Yes. I suggest that they have the same characteristics but I do not think we can rely on just transferring them over to Canada. I think we need our own survey and I do not think it is that difficult to do a survey. I was astounded that after all this talk the survey has not been done.

Mr. Peterson: A number of people factor in a lot of different things, RRSPs, deferred profit plans and houses, small businesses, farms and all that stuff. Some people are arguing that in fact there is 80 per cent coverage now, if you take in all those kinds of different individual arrangements for looking after retirement income. Of course, some of these people never retire.

Mr. Jackson: I think it is too important a question to pass legislation when you don't know the characteristics of it and I am just astounded that we haven't done surveys on it.

Mr. Peterson: It wouldn't be the first time we have done it.

Mr. Chairman: I am glad to see you claim credit for that, Mr. Peterson.

Mr. Panabaker: Mr. Chairman, Mr. Peterson asked how our mandatory minimum private pension plan might differ from the one recommended by the commission, as I understood one of his questions, and if you look at the supplementary brief, on page six, there you will see for the next number of pages the characteristics that we would suggest in a mandatory system contrasted with those suggested by PURS. We can go through it in some detail if you wish, but it would be fairly lengthy.

Mr. Chairman: I don't want to exclude the range of discussion for the sake of exhausting maybe one particular area. I will leave that with you. I know there are a number of members who have already indicated anxiousness to ask questions and I thought maybe if you had finished presentation then we could go on.

Mr. Panabaker: The only other thing I would like to say by way of introduction is some of the reforms that we would suggest be made if there were no mandatory plan, and then we could just come back and discuss the characteristics of the mandatory plan. These are summarized beginning on page six of the summary brief.

We would suggest that vesting would be required after five years of service or after one year of service of age, if age plus years of service add up to 45; portability should be made available to all pension plan members with vested benefits; that plans would be required to permit a terminating employee to transfer funds from the plan to the plan of his or her new employer, to permit a new employee to transfer to the plan funds from his or her previous employer's plan and to receive additional credited service for those funds and--this is the key to our proposal--that in the way in which these would be calculated, to treat both terminating and new employees in exactly the same way when calculating the amount of funds to be transferred for a terminator and the value of additional service credits to be given a new employee who wishes to transfer.

This is to keep the employer honest. If he has to treat the person who is leaving in the same way as he treats the person who is coming, then you can expect a degree of even-handedness in that respect.

Another approach of course would be to require that the value at the employee's option be transferred into a block RRSP type vehicle or PURS type vehicle and that would also achieve, if the calculations were made properly, a high degree of portability.

As I have said earlier, we think that the excess interest

indexing should be used and it should be phased in in such a way to avoid sudden substantial increases in employers' pension costs. We have suggested a number of ways of doing this, particularly using the base rate of six per cent. That is to say that investment earnings over six per cent of the fund with respect to the reserves held for the pensioners themselves would be applied to increase pension incomes.

We have suggested some possible ways of phasing in that requirement for inflation protection, and we spend a little bit of time on page seven discussing the portability system which has been introduced by the association. About 20 life companies have included this portability feature already. Thirty more plan to do so by 1985. I think many of the ones who have not done so yet are waiting for some indication of how public policy is going to go. The 50 companies who are planning to operate in this area account for about 73 per cent of Canadian premium income, but this is not a scheme that applies only to the life insurance business. It can be used by any employer and we have provided you with some documentation as to how an employer could make use of it.

We are in the process of developing for regulatory approval a small pension plan designed to appeal to small employers. This will be called the uniform pension plan, and in it many of the characteristics are common. The insurers will compete for business on the basis of investment return and investment options.

2:40 p.m.

Mr. Riddell: Are you referring to the same brief that we are? I have been trying to follow you. I don't see anything about portability on page seven.

Mr. Panabaker: There are two briefs. There's a double-spaced one, and then there is a supplementary one that is in very much more detail.

Mr. Chairman: They are Exhibits 70 and 71.

Mr. Riddell: Oh, you are on Exhibit 70, I gather.

Mr. Panabaker: I am on Exhibit 70, I presume.

Mr. Riddell: Pardon me. I have been trying to follow you and I couldn't.

Mr. Panabaker: Okay. So we are of the view that there is a very substantial degree of consensus emerging on a number of subjects, particularly on the need for more immediate vesting; on the need for some form of portability, whether it be the kind of scheme that the Canadian Life and Health Insurance Association has suggested or the use of block RRSPs to achieve it; on the need for reforms in the area of providing survivor pensions, and probably some approach to the excess interest earnings where inflation protection should be used and introduced over time to assist the pensioned portion of the population.

Mr. Peterson: How much time would you need to phase in (inaudible) on excess interest?

Mr. Panabaker: It depends on how you approach it. One of the ways is to apply it only to pension benefits accruing after a certain date. Another would be to start with a rate of, say, six per cent, and gradually over a period of time to lower that. You would get some inflation protection immediately; you would get more inflation protection over time as you lowered the base rate from six to five, to four, to whatever. That would be a matter of fiscal policy, of public policy at the time, depending on what people thought the economy could support.

Mr. Jackson: I guess the employers are looking at it in a total picture. You can't take one item and say how fast that will be, because if that's the only item it can be faster than if it's a lot of other things. So you have to look at the total picture.

Our own feeling is that if you legislate this for future service you can't legislate it for pensions in payment. If you legislate an indexing of pensions in payment you will find that some employers just can't afford it, because the amounts of money we are talking about are very, very substantial. Some people would just discontinue the plan. So we don't think it's appropriate that the legislation recognize it.

If it's legislated prospectively then the pressure is going to be on the employers who can afford it to give similar treatment to those who are retired. So I think you will find that the coverage of people with excess interest will go much faster than the legislation, just because of the pressure of the active and retired employees on an employer who can't afford to do it. Once you have said this is socially desirable, because your legislation said you are going to have to do it in the future, then those that can will do it retroactively and be under increasing pressure to do so.

Mr. Panabaker: Mr. Chairman, coming back to the question of the characteristics of our mandatory plan, I would refer the members, I think, to Exhibit 71, the second exhibit, and to page six. See if I'm right. I'm not sure they are going to get it the same way I do.

There you see the characteristics of an alternative mandatory plan to PURS. The basic requirement would be that every employer would have to establish a pension plan for employees which meets the requirements of the legislation. This could be accomplished through participation in a multi-employer plan such as the one that our industry has suggested; it also could be done by using a form of RRSP. We recognize that there would be administrative complexity, and we would suggest that again it would have to be phased in over a period of time.

The difference between our position here and the one of the royal commission is essentially with respect to the way in which the commission has concentrated on the PURS approach. We are suggesting a broader kind of approach that would utilize a variety of different plans. We will see that--

Mr. Cureatz: Just on that point, Mr. Chairman, I would

like to ask one question very quickly. In relation to your portability you would solve the problem of an employee going to another company that does not have a pension scheme by legislation that would require all employers to have a pension scheme?

Mr. Panabaker: If there's a mandatory plan with certain characteristics then the portability ceases to be a problem, because you move sums of money from one mandatory plan to another, and so it goes. If there is no mandatory plan then you have to make special provisions for providing reasonable termination benefits to achieve a degree of portability.

Mr. Chairman: I gather what you are saying is that in terms of existing employee plans there is no need for any PURS type of plan or supplementary plan, assuming that certain basic reform in the legislation takes place.

Mr. Panabaker: That is correct.

Mr. Chairman: Now you turn to the area of coverage. You try to address that problem, and I gather what you have said is that the problem may not be as acute as originally perceived.

Mr. Panabaker: But we are not absolutely sure.

Mr. Chairman: There is an unknown there.

Mr. Panabaker: Yes.

Mr. Chairman: Now you are saying that in order to address that problem of coverage there will have to be some mandating either on a universal basis by providing some standard in implementation again to the private sector.

Do you see a need--I guess maybe that's a premature question until we determine just what that group is, how large it is. But are you assuming that there will be a need to address that question of coverage in addition to the legislative reform of existing plans?

Mr. Dowsett: Mr. Chairman, if I might, I think it might help if we went on with the discussion of the differences between PURS and the minimum mandatory plan that we have suggested.

One of the keys is on page nine, which is going to help answer this question. On page nine we have shown figures for three types of employee. One is earning 50 per cent of the average industrial wage. Our form of minimum mandated pension plan would not call for any contribution or any involvement for that employee, because we feel that some of those right there now in our work force who are not covered are people who are making less than that income, cannot afford to make contributions, because their level of income is low, and are already covered through CPP and OAS adequately and will have adequate replacement ratios. So our form of minimum mandated plan, then, would have a formula for pension contributions and pension benefits which would say that the man or woman who is making 50 per cent does not have to do anything more.

For someone who is making 100 per cent of the average industrial wage our suggested minimum mandated plan would call for an employee contribution of two per cent of that employee's earnings. And for someone making 150 per cent of the average industrial wage our minimum mandated plan would call for an employee contribution of 3.83 per cent of total earnings.

The result of this would be that if our form of minimum mandated plan were introduced it would not create any new pension benefits for a large sector. That's what we do not know: how big that sector is, how many of the people who do not now have a private pension plan are earning less than half the average industrial wage. This is why we suggest getting some more work done on the uncovered population.

But even before we know the answers, if we are going to have a minimum mandated plan, our form of minimum mandated plan, which is different to PURS--you see, PURS could call for contributions by all of those employees on their earnings whether they are making half AIW, AIW or 150 per cent of AIW.

2:50 p.m.

Mr. McClellan: Could I stop you for a minute? I realize you have done this twice now, but I have still missed the point; that is, why you are recommending that those who earn less than 50 per cent of the average industrial wage be, in a sense, excluded from pension coverage?

Mr. Dowsett: Well, turn back one page to page eight, where there is a table of replacement ratios. By replacement ratio we mean the income received after retirement as a percentage of the income received before retirement. This is disposable income before retirement and disposable income after retirement. Let's take a figure on that table. For someone who just before retirement has a gross income--

Mr. McClellan: Disposable means net income?

Mr. Dowsett: Yes, after taxes.

Mr. Panabaker: After taxes and after the way in which OHIP and all these other things change at retirement. There is a discussion of that on page 22. You can look that up.

Mr. McClellan: Okay. Thank you.

Mr. Dowsett: For a single person, our form of minimum mandated plan would yield the replacement ratios shown for a single person under the heading "association," which is 70 per cent for a person earning 50 per cent of AIW. The bracketed figure includes guaranteed income supplement. The only things creating income that go into the 70 per cent figure are OAS and GIS because our form of minimum mandated plan would not generate any benefit for that person.

Mr. Panabaker: You mean CPP.

Mr. Dowsett: What did I say?

Mr. Panabaker: OAS and GIS.

Mr. Dowsett: I'm sorry, it's OAS and CPP.

However, the PURS approach would generate a 95 per cent replacement ratio because the PURS recommendation would generate pension benefits for that low income earner. On the other hand, for a man or woman who at the time of retirement is earning 150 per cent of AIW, the replacement under our proposal would be 69 per cent, whereas the PURS approach would generate 52 per cent.

Turning to the marrieds, you can see the three figures under the association's approach 93 per cent or, with GIS, 129 per cent, replacement ratio 88, 94 and 81. Recognize again that for that top person, 50 per cent of AIW, our form of minimum mandating would not generate any benefits at all for that person. Only CPP and OAS would give that 93 per cent replacement ratio; whereas the PURS approach does generate benefits under the private plan for that low income earner and gives you replacement ratios of 116 and 142 which, in our view, are too high.

Our replacement ratios are much more regular with increases in income; you have a closer relationship. Eighty per cent was what we were looking at as the basic standard; that it would be good if everybody in Canada could retire with a replacement ratio of around 80 per cent.

Mr. Epp: Maybe you gentlemen could answer a question for me that is very relevant to the discussion. This is one of the many issues we are going to have to grapple with. What kind of time frame do you see us working in?

There are those who are saying that these decisions are going to be made at the federal-provincial level in the fall and early winter, and there are those who think we have a lot more time left. You are talking about a survey the federal government may be taking after your discussion with Mr. Kirby. Mr. Peterson says it would not be the first time governments have made decisions without having done sufficient surveys. How do you see this problem, which is very relevant to all our discussions?

Mr. Panabaker: I think there are a number of issues running around here of which this is only one. The federal government has indicated that pension reform is its objective during the term of office of this government, which could suggest that it may have another three years or so to run. But they would like to achieve it completely by the end of that time.

I do not think that the question of pension reform can be disassociated from the issues of the established programs financing and the question of federal-provincial equalization and so on. I think there will continue to be debate on through the fall as the various provinces take their positions and as the federal government continues to take its position. I cannot see the matter being resolved quite as quickly as some people have suggested it will be.

The key issue, the gut social issue is the position of the

existing retired. You have to be careful that is not confused with creating an ideal pension system for the future. The first one, the question of the existing retired, has to be dealt with. That is a political decision and a fiscal decision for the governments involved. Then there is the question of getting these other reforms in place. I suspect that if this whole question is finally resolved during the term of office of the present federal government, we will all be doing very well indeed.

Mr. McClellan: Are you making a recommendation that we start with the short-term, the political problem of people who are retired now?

Mr. Panabaker: Yes. At the National Pension Conference we suggested that the GIS be increased and that it be increased with emphasis on the single retired.

Mr. McClellan: I may have missed this because I missed part of your presentation, but did you set a target objective for that?

Mr. Panabaker: We did not set an objective as such. Perhaps we said \$50 at one point, but there have been so many figures bandied about.

Mr. McClellan: A lot of people are saying it should be based on a ratio of 60 per cent of the married rate. Is that what you are saying?

Mr. Panabaker: Yes, that sort of thing. That is exactly so.

Mr. Chairman: My disruptive remarks, Mr. Panabaker, have led on to all of this discussion. Actually what I was asking, as you may or may not have gathered, was whether in your view a mandatory plan of some nature was necessary or not necessarily desirable, regardless of the legislative reforms that might come in regard to the existing pension system.

Mr. Panabaker: Mr. Chairman, it must be totally obvious to the members of the committee that I cannot say for sure. I suspect, personally speaking, that it may very well be, but I would not want to rush into one.

Mr. Jackson: I think there is one other point that we have not talked about on the uncovered group, which is that there are a number of people who are working for employers that have pension plans but who have not joined the pension plan. With pension reform, that figure might change quite a bit. We do not know what numbers we are talking about, but there are a lot of young people who joined an employer and have the expectation that they will only be there for three or four years, so why join a pension plan and in some instances get just their money back with a very poor rate of interest.

Under those circumstances there is not much incentive. Under a revised pension plan, where after a period of time, say five years, you get a vested benefit, then it is not only your money.

If it is matched by the employer, you are entitled to a very good rate of interest on those earnings. That is quite a different incentive. I think you would find a lot of the young people who now start off saying they would not contribute to a pension plan would change their attitudes.

Mr. Mackenzie: Why should the vesting be five years, necessarily, if we accepted that it is deferred income?

Mr. Jackson: You cannot look at one thing in isolation. You really have to look at the totality. I think you can very easily argue over a period of time that they should be immediate. If you talk at any period of time, you have all of these problems. How much can Canadian society change without a dramatic increase in cost, which will make us internationally noncompetitive. I think that is the essence of the thing. If you want to look out 20 years, yes, you can have immediate vesting.

Mr. Mackenzie: I was interested in hearing the trust company this morning saying it should probably be.

3 p.m.

Mr. Jackson: I think the only reason it should not be immediate right off the bat is what are you going to do? If you are going to make that, and then you are going to say, "Well, in retirement you should have some excess interest." If you were to make it retroactive, then that just kills--you would have a revolution if you had that sort of thing. I think a lot of employers would just say, "If that is what you are saying, we will have to terminate our pension plan." That would really start a lot of strikes. I just do not think that sudden a legislative requirement is acceptable to our society.

Mr. Epp: We have not really considered that aspect.

Mr. Panabaker: No, I am sure you have not.

Mr. Chairman: I do not want to interrupt the free flow of discussion but I surmise that you may not have finished your presentation yet.

Mr. Panabaker: I have finished my presentation. I am quite happy to carry on in any--

Mr. Chairman: If so, I have quite a lineup here for questions.

Mr. Panabaker: All right, let's go.

Mr. Williams: Mr. Chairman, I was anticipating that Mr. Panabaker would give us a little more information on his uniform pension plan proposals as an alternative to the mandatory plan.

Mr. Panabaker: I am very happy to do that, Mr. Williams.

Mr. Williams: This intrigues me.

Mr. Peterson: They are in there in great detail.

Mr. Panabaker: They are in Exhibit 61 in very considerable detail.

Mr. Williams: I think this is very important that this gets on the record because you are offering what you consider to be the viable alternative.

Mr. Dowsett: I beg your pardon, it is not an alternative. It could be, or could not.

Mr. Panabaker: It is an alternative to PURS.

Mr. Williams: Yes. Right.

Mr. Dowsett: What are we talking about?

Mr. Williams: The uniform pension plan that you are talking about.

Mr. Dowsett: The one we are going to offer to small employers. We are going to introduce this. We are going to make this available through the life insurance companies.

Mr. Williams: That is right, and I would like to hear about it.

Mr. Panabaker: That is not the minimum mandated pension plan.

Mr. Williams: No, I know. That is what I said.

Mr. Panabaker: Excuse me, I just want to be absolutely sure that we are on the same wavelength. You are not talking, Mr. Williams, about the mandated plan. You are talking about the one that we are--

Mr. Williams: I am over on page 12 of your detailed presentation.

Mr. Panabaker: Page 12, very good.

Mr. Williams: The decision not to mandate coverage.

Mr. Panabaker: I will ask Mr. Frank Speed, vice-president and actuary of the association, to speak to this point.

Mr. Speed: Mr. Williams, we have developed and hope to have on the market this fall--as a matter of fact, we are ready to submit it to the authorities within the next few days for approval--a plan we have developed, which we think will take some of the administrative complexities out of pension plans.

For the small employer, there are two aspects to putting in a pension plan. There is, first, whether he can really afford it, and second is the administrative complexities some people feel are

there. What we have designed is a single large pension plan which would have all the provisions of the plan uniform with two exceptions; that is, whichever employer joined the plan, the provisions would be the same except for these two exceptions.

The first exception is the contribution rating. We have said that the employer can choose whatever contribution rate he would make and his employees would make to this plan. The other exception has to do with the period of eligibility. We have said that employees of employers who join this plan would have to be eligible to participate after one year of service provided they are aged 25. We have said that an employer could waive this particular requirement and bring his employees into the plan right away if he wished.

But with these two exceptions, the plan provisions would be uniform for any employers and employees who joined the plan. The plan would be offered by a number of different insurance companies. Currently we have 38 insurance companies who have agreed that they would offer this particular plan.

What would happen in that case is that the employers would compete for the business on the basis of investment return and the services they were prepared to provide, but they would compete to service basically the same plan.

In designing this plan, one of the key things will be the reduced administrative complexities. We have been talking to the pension authorities in Ontario and in the other provinces and with Revenue Canada, and we are getting good co-operation from the authorities in reducing the administrative red tape, the filing of annual information returns and all that kind of thing that currently goes with the installation of a pension plan.

Basically, this is a money purchase pension plan, very similar to a registered retirement savings plan except that there is a visible employer contribution into the plan. When an employer puts in this plan, he can choose the contribution rate that the employees must make, but he, himself, must at least match the contribution that the employee has to make. It could be totally noncontributory. In other words, the employer, if he chooses, could pay the full cost of the plan. As I say, it is a money purchase type of plan, so these contributions would go into a fund and would be accumulated and purchase whatever benefit came out the other end.

Mr. Peterson: There will be one fund.

Mr. Speed: Each insurance company would have its own investment vehicle.

Mr. Peterson: But you are each going to guarantee us a comparable rate of return?

Mr. Speed: No.

Mr. Williams: Uniformity in the contracts or in the arrangement--

Interjection.

Mr. Williams: Yes. The contribution rate is the competitive factor. That is still open there along with this period of eligibility. You have the uniformity factor, which is desirable, but where does the universality come into the situation?

Mr. Dowsett: It doesn't at this point.

Mr. Williams: That is the problem.

Mr. Speed: The vesting conditions would be the same. The lock provisions regarding the locking in of contributions would be the same. All of the various benefit provisions of the plan would be the same. What would be different is that the money would be accumulated by different insurance companies based on their own investment vehicles, and that money would be used at retirement to purchase a pension. It wouldn't necessarily be purchased from the insurance company that was accumulating the money. The employee would have the right to go out on the open market and buy a pension from wherever he could get the best deal.

Mr. Jackson: I am not sure that has answered your question. Was that the question you were asking? I thought you were asking how that improves coverage. It improves coverage by offering to the public a simple plan that is inexpensive to administer, and that is what we understand.

Mr. Williams: I understand that, but I take that to be your alternative to a--

Mr. Dowsett: No. Mr. Chairman, there is something we are missing here.

Mr. Williams: All right.

Mr. Dowsett: This would only become used with the decision of employers to enter into this plan. The universality will only come if enough employers made that decision. One way to get the universality is to pass some minimum mandated private pension legislation. If the legislation on minimum mandated pensions was in the form that we have suggested in the other part of our brief, then all of these uniform pension plans and the employers that had done that would have already complied.

Mr. Panabaker: To a large extent.

Mr. Dowsett: To a large extent. They might have to tinker a little bit, depending on what the legislators put into the minimum mandated pension plan standard provisions. But these two are supportive to each other. These two initiatives are supportive; they are not alternatives. If we introduced this uniform pension plan and a lot of employers accepted, then the need for mandating through government legislation perhaps would go away. But even if it didn't and there were still uncovered people out there, if the minimum mandated pension legislation was of the right variety--and not the PURS variety--then all of the employers that had accepted this uniform pension plan voluntarily would be in a position without much amendment to comply with the new minimum mandated pension.

Mr. Williams: You cannot achieve universality without some form of mandating. That is clear.

Mr. Panabaker: That is our view, Mr. Williams.

Mr. Williams: There is no question about that. This uniform pension plan would be complementary to that. It would simplify it and streamline it and, you say, make it more cost-efficient than going into a straight PURS plan.

Mr. Epp: But the benefits here would depend upon the investment portfolio of the individual insurance companies--

Mr. Panabaker: That is correct.

Mr. Epp: --so that somebody, for instance, who had a plan through Crown Life might get a little more than someone who had a pension through Manufacturers or Mutual or--

Mr. Panabaker: Exactly so.

Mr. Chairman: The competition, I presume, would be in the performance.

Mr. Panabaker: That's the idea, that you narrow the competition down to the performance. I think Mr. Peterson suggests that this is PURS.

Mr. Peterson: I don't see anything terribly dramatic here. You are just trying to pre-sell the PURS program.

Mr. Panabaker: There is not very much difference between that plan and PURS. We are suggesting that a mandated plan on the PURS model is not the way to go.

Mr. Peterson: That's right. It's a voluntary PURS plan that you are out flogging.

Mr. Panabaker: "Flogging" is not the word I would use.

Mr. Peterson: I presume that if everybody bought it we wouldn't need the PURS plan. I don't like to oversimplify things, but I don't like to overcomplicate, either.

Mr. Panabaker: That's right.

Mr. Peterson: It's a good trick. It's a good idea. If you can beat us to the marketplace in the sense that we were going to legislate, you would have solved the problem for us.

Mr. Dowsett: That's right. With due respect, though, I would say that the life insurance companies and the trust companies and the actuarial consultants have had pension plans available for small employers. They are out there now.

Mr. Peterson: There's nothing new in that.

Mr. Dowsett: Not really. The thing that is new is to try to streamline it and take some of the red tape out for the employer who has heard about all the red tape you get into. When you have 12 employees and you are going to put in a pension plan you have got to go to Ottawa, get forms approved--

Mr. Peterson: In substance there is nothing new about this at all.

Mr. Dowsett: No.

Mr. Peterson: All right. I just wanted to make sure I wasn't missing something.

Mr. Riddell: For the employer to take advantage, it would cost money.

Mr. Dowsett: It adds to their payroll costs. Nobody is forcing them to do it, and a lot of small employers are sitting there without pension plans.

Mr. Riddell: Can the small employer afford it?

Mr. Dowsett: That's a good question, and that's what slows up private sector groups from coming down hard and saying, "Minimum mandated pensions by every provincial government, that's the only way to go," because that's going to put a load on the economy that small employers are leery of, particularly with the cost of money the way it is.

Mr. Williams: You say there's nothing new, but really the uniform pension plan proposal in itself would be a great breakthrough in the private sector, would it not?

Mr. Panabaker: Mr. Williams, that's correct. There's nothing new in essence in the kind of design characteristics of that plan except the simplification of the approaches to it and the narrowing down of the competitive element to the investment performance, which is in fact a very important element.

Mr. Chairman: And the universal offer.

Mr. Panabaker: And the universal offer.

Mr. Williams: It's very much as it is in the insurance industry. I was in life, where you had to make standardized, general insurance policies or fire insurance policies.

Mr. Panabaker: You don't have the investment involvement in that sense.

Mr. Brandt: Could you tell me just in a general way what percentage of the industry is represented by the proposed uniform plan that you are speaking of now? It's certainly not 100 per cent; I realize that.

Mr. Speed: I don't have the percentage figure, but virtually every insurance company in the pension business is prepared to offer this plan. The 38 companies represent all the major life insurance companies.

Mr. Panabaker: Many of the smaller companies of the 125 in the association would not effectively be in the employer pension plan business at the present time.

Mr. Brandt: So you would get fairly wide and extensive coverage with the 38 companies that you are talking about.

Mr. Panabaker: That's right, in our industry.

Mr. Brandt: Mr. Chairman, I wanted to go back to a question, if I could, by way of supplementary, since the only way you can get on the floor here. This supplementary goes back to about 12 questions earlier, and it had to do with portability. Some earlier speakers did indicate that portability does not necessarily mean that you had to put the cash in a satchel, so to speak, and carry it to the next plan.

The suggestion was that there could be a mechanism by which the benefits built up in a particular plan could remain there until such time as the employee retires. Effectively the employee who moves frequently may end up with five or 10 different contributions to different plans, which would be accumulated at the point of retirement and would then flow to the employee, rather than to have him effectively carry the benefits that he has built up with him from company A to company B.

From an administrative standpoint--since this would obviously be, I think, a very major consideration for the companies you represent with respect to the portability question, which is one of the main ones we are dealing with--does that present an administrative nightmare for you? Does that sound like a workable scheme, or is it totally unreasonable to move in that direction?

Mr. Speed: I think it's something that the companies could do. I would think, however, that for the employee it might be a bit of a problem. If he is moving from job to job and he has seven or eight jobs over the course of his lifetime, he has to remember where he has left all these little bits of pension.

I think there is the question of how to preserve the value of those little bits of pension too. I think, presumably, that is part of the system that you have described, that you don't just take the amount of pension that he has earned up until the time he leaves and put that away for him when he retires. You somehow or other have to preserve the purchasing power of that pension.

An alternative to that which seems a little more practical would be to take the value of those little bits of pension, if this is the way you wish to go, and just gather them together into a registered retirement savings plan that was blocked, for example. Then you would have the little bits all gathered together, which I would think would be an advantage to the employee and would be less administratively costly than trying to keep track of little bits of pension in each employer's pension plan.

Mr. McClellan: Is that the model that you have developed for your (inaudible)?

Mr. Speed: No. The arrangement that we have proposed in our scheme is that when an employee moves from employer to employer he takes some money with him and he is credited with additional pensionable service in the new employer's plan, so that, for example, if he had 20 years with one employer and then he went to another employer he would have his pension calculated on the second employer's plan benefit scheme but using 40 years, or maybe 38 years.

Mr. McLellan: That's on the basis of reciprocal agreements.

Mr. Speed: It's very similar to the reciprocal arrangements that the governments have between their plans except it doesn't require reciprocal--

Mr. McLellan: Do you need legislation to bring the entire industry into this system? You say in the brief that you have got 50 companies representing 75 per cent of the business into your scheme already. How are you going to get the rest of the industry in there, or do they need to be legislated into it?

Mr. Speed: Again, it's up to the employer whether he is prepared to go this way or not. I think that if you are ever going to get 100 per cent acceptance or anywhere close to it compulsion is the only possibility. We've been trying to interest not only other insurance companies but employers in other areas. We have been actively promoting this among other industries and so forth.

Mr. Peterson: Has anybody bothered outside of the life insurance industry?

Mr. Speed: Not so far. I think that, as Mr. Panabaker said earlier, a lot of employers are waiting to see what kind of new requirements are going to be placed on them before they are prepared to move in any new directions that could be reasonably costly.

Mr. Peterson: Is there any way we can get them to do it before we have to force them to do it?

Mr. Panabaker: I think it's not quite that simple, Mr. Peterson. I think the problem here is that many employers don't know what the public policy priorities are going to be and they are trying to decide. I think that applies to unions as well. What are the priorities? What are the things that ultimately are going to be considered? What are really important, where the costly changes are going to be?

So we sense that people are holding back, waiting to see what are the four or five major things they are going to be required to do, and then they will try to design in that respect. So there's a kind of chicken-and-egg process going on here at the moment. This is unfortunate, but I think it exists.

Now I get back to your point for a moment. I am not speaking now from the point of view of an insurance company, a carrier, but reporting to you some of the comments that employers made at the

National Pension Conference I attended. I got the impression that many employer representatives would prefer either something along the lines of our scheme, reciprocal scheme or whatever, or paying out a sum of money at termination, which would go into a blocked RRSP. They would then be finished with that employee rather than carrying a tag end for him or her for perhaps 30 years and then trying to find that person when their records indicate that person was now 65, if he or she wasn't dead. I think the impression I had was that the employers preferred to discharge their responsibility at the time of termination.

3:20 p.m.

Mr. Brandt: The suggestion you are making with respect to the shift to an RRSP, from my perspective, would almost have to be mandatory; would it not?

Mr. Panabaker: It would have to be blocked so that you couldn't get the money out.

Mr. Brandt: Give some kind of a cash settlement to the employee.

Mr. Panabaker: Any amount of money that came out of the pe io plan would have to go directly into an RRSP. The employee could then move the RRSP from one carrier to another, but that money could not be taken out in cash; it would have to be taken out as pension income ultimately.

Mr. Brandt: Do you think that would have to be legislated?

Mr. Panabaker: (Inaudible).

Mr. Brandt: No, but in the sense you have this proposal e pect to your companies now that will be across the board,
?

Mr. Panabaker: I am not sure I understand the question.

Mr. Dowsett: I think we are talking about three subjects all at once, which is confusing. Within the life insurance companies--

Mr. Chairman: (Inaudible) three points of view, but never three subjects, as far as I'm concerned.

Mr. Dowsett: Within the life insurance companies we have t i portability arrangement that--how many companies now have--

Mr. Speed: Twenty so far.

Mr. Dowsett: Twenty, and another 30 have indicated. This only concerns itself with employees who leave Crown Life and go to Mutual Life; it doesn't concern itself with an employee who leaves Crown Life and goes to work for the Royal Bank because there isn't a portability arrangement built into the Royal Bank's pension scheme that would accept the transfer of credits from

Crown Life. That is the one portability scheme that is outlined in this package that was presented. Let's set that aside for the present.

There is the uniform pension plan that 38 life insurance companies--have I got the right figure, Frank?

Mr. Speed: Yes.

Mr. Dowsett: --38 life insurance companies are going to make available in September to employers out there. That standard pension plan that will be picked up by some small employers, I am sure, and for that group there is a built-in form of transfer from one employer to another. Am I not right, Frank?

Mr. Peterson: If they both bought the plan.

Mr. Dowsett: If both employers, be it XYZ Manufacturing Company and ABC Manufacturing company, both have this kind of standard plan.

Mr. Brandt: Among any of the 38 companies.

Mr. Dowsett: No, no. This is offered by 38 companies and might be bought by 1,000 small employers out there. Then if somebody leaves one of the 1,000 small employers and goes to another of the 1,000 small employers, both plans would have this provision and moneys could be transferred from the one plan to the other. That is another form of portability.

There is a third subject, and that is described in our minimum mandated proposal, which is on page 10 of the longer brief. This addresses what would happen if the Ontario government--and hopefully all of the provinces would move the same way--decided to have some minimum mandated pension plan for all employers.

Mr. Chairman: That is true universality.

Mr. Dowsett: Yes, and in that instance--

Mr. Chairman: I didn't want to (inaudible) the 38 companies and universality.

Mr. Dowsett: But then our recommended form of portability in that situation would be that the employee would have the opportunity when he leaves one employer to put his money into a locked-in RRSP, and that is what it says on page 10.

Mr. Mackenzie: Or transferred.

Interjection.

Mr. Dowsett: A locked-in form of RRSP, they do not have that vehicle. That is why we have the constitutionality problem. Can we get a locked-in form of RRSP for this purpose through federal legislation?

Mr. Brandt: That is the part where I asked the question of whether or not it would have to be mandatory in your view. I did not read this sentence before you just mentioned it. You are saying that would be an essential component to the third part of the--

Mr. Dowsett: The minimum mandated pension plan.

Mr. Peterson: No you don't. You could mandate portability tomorrow morning for existing plans. You just force everybody to devise a formula, price in, price out.

Mr. Dowsett: But to use a locked-in RRSP for that purpose.

Mr. Peterson: As one option, an employee option. I think it has been established that even in the absence of mandating universal pension benefits of some type or another for everyone, they could still force portability between existing pension plans and I am told that that is not an overly complicated issue. Do you agree? If we said that is the law, everybody would adapt. I just want to bring that up because we do not have to change the whole world to change that particular problem.

Mr. McClellan: Could we just stay on this for a second because I think this is helpful. Reading from the royal commission: "In the commission's opinion it is impossible to achieve portability in a system of individual employer plans. The only recourse is to universal compulsory plans."

Mr. Panabaker: We would not agree with that.

Mr. McClellan: Okay. Can you give us a recipe?

Mr. Panabaker: The recipe is in our proposals.

Mr. Speed: When you talk about portability, you are really talking about carrying money out of the plan and carrying it somewhere else. One thing you could do is simply legislate that at the employee's request when he terminates, he must be allowed to transfer the money out of the plan to a vehicle that remains locked in. That is one step you could take. If an employee left an employer, he could say, "I want my money transferred to a registered retirement savings plan." The employer could say to the carrier of that RRSP: "Is this completely locked in? The legislation requires that this money not be available ever to the employee in cash. Are you prepared to put that contractual provision in your plan?" The carrier says, "Yes" and you transfer the money. What you have done when you do that is simply prevented the employer from hanging onto this money. That is a form of portability.

Mr. Brandt: In effect, what you are saying here is that the RRSP would be a catch-all for the employee who got caught without having a transfer option.

Mr. Speed: That's right.

Mr. Brandt: He could come out of a plan and be unemployed. There may be absolutely no other option for him and in that case the locked-in RRSP would act as a vehicle for some form of a safety net where it was mandatory that he transfer it in until the point of retirement obviously.

Mr. Peterson: Just that he might starve to death before he gets a pension, that's the only problem.

Mr. Panabaker: Mr. Peterson raises a very interesting social point.

Mr. Brandt: (Inaudible) proposed to look after that.

Mr. Panabaker: That's right. That is one of the problems with locked-in RRSPs. Under what circumstances could that person get the money out? Presumably at retirement, probably if he or she were disabled, but then what about the question of the unemployed.

Mr. Epp: Early retirement.

Mr. Panabaker: Yes, you could handle that I would think up to a certain point.

Mr. Brandt: Then the actuarial figures go right off the board and we are all in trouble.

Mr. Chairman, I have concluded my supplementary questions.

Mr. Chairman: I surmised that you had. I also understand now what Mr. Panabaker meant when he was talking about the pension swamp. You can see, Mr. Panabaker, that we are trying to drain it before the alligators get up to our waists.

Mr. Williams: There are just three more points I wanted to touch on. Just staying with the uniform pension plan for a minute, as I understood it this is something your 38 companies or your association is putting in place and making it operative before year end. Is that right?

Mr. Panabaker: This fall, all being well.

3:30 p.m.

Mr. Williams: How long do you anticipate it would take to be able to do an assessment of it on an experience basis, on how successful this might have caught on as far as covering the areas that you feel it is designed to address, the areas of lack of coverage at the present time? Is there any way that you are going to be able to monitor this? What are you doing?

Mr. Speed: I guess the best judgement is how many employers choose to put in this kind of a plan. I would think it would take a period of a year or so after companies start to sell this plan before you could see whether anybody is going to buy it. That is the unknown question.

There are two things in trying to cover the small employer

market; can the small employer afford it, and is it just too complex for him? We are trying to take the complexities out and just leave the question whether he can afford it or not. Then we will see if it starts to sell.

Mr. Jackson: There is another very important aspect. It depends greatly on the economic conditions when you start measuring this. If you are going to proceed and going into a recession, you are not going to find very many small employers wanting to join this plan. So, if you measure over six months or a year where you are going into a recession, that is not a very good indication of the future. On the other hand, if you were going in just when everything was looking rosy, I think you would have much more success. A year might give you some indication, but it is very conditional on economic conditions of small employers.

Mr. Williams: I presume your industry as a whole is going to promote this new program aggressively to prove the merits of it.

Mr. Panabaker: Yes, that is right.

Mr. Williams: I guess the merit of this thing is on the line and you are going to have to prove it.

Mr. Panabaker: You would not be able to assess it very easily before two years had elapsed in order to get any sort of meaningful indication. We have only limited staffs. We do not know just how fast employers are going to respond to this.

Mr. Williams: What concerns me and what concerns you, I guess, is your admission, earlier, that you did not know where the areas of lack of coverage were, how extensive they were out there and whether this was really going to get to that area because you have not been able to define the animal yet.

Mr. Panabaker: We are pretty convinced that a large portion of the uncovered are with the small employers.

Mr. Williams: Yes; right.

Mr. Panabaker: There is no doubt about that. That is demonstrated in the royal commission report pretty clearly. This is an attempt to get at that group, but I think we would require at least two years to get some sort of indication of how quickly people were responding to this proposal.

Mr. Williams: Mr. Dowsett, you looked perplexed when I made that comment. You looked startled.

Mr. Dowsett: Yes. Members of this delegation have indicated that there should be more work done on defining the characteristics of those workers in Canada who do not now have private pension coverage. That is true. We do not know how many are under age 25, how many are in the waiting pattern for employers with pension plans.

We do have some feeling from all the studies that have been

done that there are a large number of full-time workers, making an average industrial wage or greater, who do not have private pension coverage, and do not have registered retirement savings plans. That might be anywhere from 20 to 40 per cent of the working population. That is a group that this uniform pension plan could well serve, if their employers could make the decision to be involved.

Mr. Williams: This morning, OPSEU was before us. They had as one of their representatives, Mr. McCrossan from Mercer's, who was questioned at some length on the excess interest method.

I gather from what you said earlier, Mr. Panabaker, that you are very supportive of that particular approach. To what extent has your industry been involved in developing that method more aggressively?

Mr. Panabaker: This approach has come along as a vehicle for inflation protection pension plans. It has become a matter of discussion only in the last number of years, really. Some of the consulting firms, Mercer's being one, have made use of this in a number of plans. It represents a recognition on the part of an increasing number of actuaries, of people in our industry and, indeed, in the financial community, that there is an interest rates, at the moment, an inflation component.

That is not a perfect hedge but it does represent the way in which the markets are reacting to the existence of inflation. That inflation component is a reasonable way for a private sector employer to provide a degree of inflation protection to his or her employees. Yes, we do support this as basically the only feasible plans to provide inflation protection.

Peterson: Why don't you like the inflation tax credit? Why don't you like that?

Mr. Panabaker: For one thing it probably will lead to double counting, and it relieves the employers of any responsibility of using that inflation component in their investment earnings to provide for their retired employees.

Mr. Peterson: You know the trust companies like it, eh? I just thought I would tell you.

Mr. Panabaker: That is all right; we don't.

Mr. Peterson: I do not either.

Mr. Epp: What do you mean by double counting?

Mr. Panabaker: If, for example, we provided inflation protection, even some sort of ad hoc inflation protection, to the retired employees of the Mutual Life, as we have been doing now for many, many years, and they were also getting the inflation tax credit, you are compounding two forms. That is the double counting. You are getting it twice. You are getting something from us and you are getting the inflation tax credit.

It would in fact discourage us, if you like, from doing anything for our employees, saying that is the responsibility of the government. I really do not like that approach.

Mr. Epp: Very good. You are the only person who has made that one.

Mr. Chairman: In terms of the inflation tax credit approach, it has been criticized by other persons appearing before the committee. There was some slight support for it.

Mr. Dowsett: Mr. Chairman, I might answer Mr. Williams' question. Three years ago, there was a committee of the Canadian Life Insurance Association which was working on this approach to inflation protection, trying to find a way to recognize the inflation component in current interest rates and use that to enrich pension benefits.

So, in answer to your question, the life insurance industry has been involved in developing that thinking. Part of the involvement was given focus in the criticisms by some life insurance spokesmen of the full indexation provided by the federal civil service superannuation plan and how the private sector could not do that because it was an open-ended cheque book.

Mr. Williams: Isn't that really the stumbling block in really developing it to its maximum potential? Mr. McCrossan, this morning, seemed to think that the impediment was the attitude, or lack of concern for this type of approach in the public sector, in the way in which they are developing their programs there. He seemed to think that without the federal authorities giving some recognition to the principles of that system and incorporating them into their scheme of things, the excess interest program would not work.

Mr. Dowsett: I would not agree totally with that conclusion, because I think there are a lot of other smart people in the world besides the people who are designing the federal public service pension plan.

3:40 p.m.

Mr. Dowsett: I wonder if I could make a point here. Granted that very rich indexing system that is there for the federal civil service, which is full indexing of pensions in accordance with consumer price index increases, is a very frustrating example of a form of indexation post-retirement enrichment for any other employer be it a provincial government or a private employer to try to match. Therefore, that perhaps has slowed down the positive steps that might have been taken, and indeed are now being taken by some other responsible employers to try to find some form of post-retirement enrichment for their retired employees.

It is still happening. There are employers out there now who are accepting this excess interest approach and building up a larger sum of money based on something like three per cent or four per cent at the time a person retires, and building into pension

plans a formal system of post-retirement enrichment that is based on the excess interest earnings over that level in the retirement years, and causing increases in pension benefits.

Mr. Jackson: Mr. Williams, I wasn't here but I would imagine that remark would be perfectly applicable to the Ontario Civil Service if they have indexing. It is going to be very difficult to come back to an excess interest as long as the federal government remains with full indexing.

But if you do not have any indexing then everybody would be happy if you go to an excess interest. It is better than nothing. But if you have everything it is going to be very hard to pull back. I think that--

Mr. Brandt: What you are saying is there is no free lunch unless you are involved in the federal program?

Mr. Jackson: Something like that.

Mr. Brandt: I just wanted to get that on the record.

Mr. Panabaker: Mr. Chairman, I would hate to burden the members of the committee with anything else to read but if there is an interest in this question of excess interest indexing, my company, not the association, has prepared a paper, about 16 pages in length, specifically on the subject of excess interest indexing for pensioners. We would be glad to provide the staff of the committee with copies of that for members of the committee if you are interested.

Mr. Chairman: You can thank the Mutual Life Company on our behalf.

Mr. Panabaker: We will see that you get copies.

Mr. Williams: Just a last question I wanted to raise with the allegation of this--your obvious standoff position with regard to unisex mortality rates. This is obviously an area where you totally disagree with the royal commission's report.

Mr. Panabaker: I am sorry I--

Mr. Williams: This is on unisex mortality.

Mr. Panabaker: Yes, that is right. We disagree entirely with that. Again, I will refer to my actuarial friends. Sid, are you going to start on that one? It is in the appendix.

Mr. Jackson: I think in essence the insurance principle is on pooling of risks of large numbers. If you are going to take large numbers, then you want to have large numbers of like people in order to be equitable, so you look at the characteristics of the population that have a major impact on your mortality, and how can you group them and classify them.

The two major areas of doing that are on sex and age. That is the way that it is done. The implications of having a unisex

table really means that there are opportunities for selection against. It depends entirely on how a unisex table was legislated and whether there would be options out or not, and on which way it was done. But the end result would be that the table would tend towards the female mortality and the females then would get a bit of a break; and the males would be significantly penalized. I just have difficulty in understanding why a unisex table is appropriate and proper, any more than it is appropriate to give a 25 year old the same annuity as you would give a 65 year old.

There was never a suggestion of cutting out age, but if you are not going to cut out age, why would you cut out sex?

Mr. Chairman: That is a good question.

Mr. Epp: Whoever suggested it?

Interjections.

Mr. Panabaker: Mr. Williams, there is quite a detailed discussion of unisex tables, which begins on page 23 in appendix 3. I think the key to it is our feeling that, depending on how it was done, the tendency would be for the insurers to move closer and closer to a female mortality table; because one way or another the male lives would attempt to improve their position by getting around the use of the table, as we suggest here, by going outside the province to buy annuities, if it was only in one province that this was happening. An employer who had an all-male life group might be able to offer a better situation than one who did not. If there is an all-male and an all-female life group there are different ways you can do unisex, all of which tend to involve people--ultimately the male lives trying to avoid the system, and the actuarial table that you are using moving closer and closer to the female life table.

Mr. Williams: At the bottom line what are the cost ramifications if you go to the unisex mortality concept?

Mr. Panabaker: The cost ramifications are that employers and actuaries and insurance companies would build in more contingency funds, because you wouldn't know where you were going to come out. And I would think that the amounts of pensions for an amount of dollars would in fact be higher, but to what extent it is hard to guess.

Mr. Jackson: It's very difficult to answer that unless you know exactly what you are proposing. And there are a variety of ways of proposing. But the cost is not as much a cost as it's a redistribution of benefits. You are giving more benefits to females than we think they are entitled to and taking it away from the males. A 65-year-old male is approximately the same as a 70-year-old female on mortality tables. That is the equation, and why would you say a 70-year-old female should be treated like a 65-year-old?

Mr. Peterson: Discrimination against men--is that your point?

Mr. Panabaker: No. I think what we are concerned with is that we have recognized over the years that the buying public tends to recognize implicitly a situation where you are ignoring an important factor. Annuitant mortality is not the same, for example, as life insurance mortality. People don't generally buy voluntary annuities if their health is impaired. So you have to take that into account, and you must make sure when you are pricing annuities that the population you are selling to has the characteristics of the population that is represented by the table you are using to price your annuities. If it doesn't you are in trouble. Do you see what I mean? If you are dealing with a population of all females and you are pricing on the basis of a combined table you are going to lose your shirt. There's no question about it.

On the other hand, if you are dealing with a population of all males and you are using a combined table the insurance company is going to make a fair bit of money. You may say that averages out in the wash, but in a system where Manulife might be getting a lot of the male lives and we might be getting a lot of female lives, to force us to use a combined table would put us into a loss position and give Sid a lot of profit.

Mr. Williams: So what you are saying is that in unisex tables it can be weighted according to which approach you take to--

Mr. Panabaker: Yes, but if you start weighting them you can say, "Well, we are going to weight it on the basis of what? On the basis of the number of male lives we expect to get and the number of female lives we expect to get." So we make a judgement of that, and Sid makes a different judgement. He assumes that he has got 50 per cent male lives in and I assume that I have got 70 per cent male lives in.

I am going to be then providing better pensions, other things being equal, than Sid is. So everybody decides that Mutual Life is a great place to buy their annuities. All the men and women, everybody comes in, and I am not getting 70 per cent male lives; I am maybe getting 50 or 40 per cent at that point, probably 40 per cent, at which point I am taking a bad loss. That is the kind of process. I protect myself by moving closer and closer to the female table. That is what we are saying, that it would be an attempt to protect yourself.

3:50 p.m.

If an employer, for example, had a pension fund which didn't use an insurance company and paid the pensions out of the fund, what are we going to do about him? We are saying he has to use a combined table. He might have all male lives. How does that work?

If he is allowed to use all male lives, then he is going to provide better pensions than another employer who has all female lives, other characteristics being the same. One male in the second employer's plan is going to get a much lower pension than one female in the first one. It becomes horrendous.

Mr. Jackson: If the committee were serious about looking at unisex tables, there is a trap that I would point out to you. If you were to look at that situation today with very high interest rates, you might find that the differential between the male and the female is something where you say, "Well, that is not very much; let's go for unisex."

Mortality is not as significant with high rates of interest as it is with low rates of interest, and so you could make an assumption based on present 20 per cent rates of interest, saying there is very little difference. Then if we do lick inflation and we go down to six or seven per cent rates of interest, the difference in that mortality is very significantly different.

Mr. McClellan: It is not a problem under the Canada pension plan.

Mr. Chairman: I don't think it is a problem under the civil rights legislation either, is it?

Mr. Cureatz, you were number two on my list. I missed you.

Mr. Cureatz: That is right, the infamous list, and I snuck in a couple supplementaries as everyone else is doing, and Mr. Epp covered the area of time that I was going to ask about. But to finish off the time aspect, on page seven of your summary brief, pension initiatives, I am curious as to your initiative just now in terms of the proposal you are making. Has it been a cumulation of a number of years of work from which you are making this package, or has it been through anticipation of government legislation that may or may not come to pass?

Mr. Speed: I think the genesis of this was the exposure of the fact that the large part of the people of the working population who were not covered were employees of small employers. So we looked at what we could do in a voluntary situation, that is, where pension plans were established voluntarily, to try to interest this group of people in obtaining coverage under pension plans. I think it is very much an outgrowth of much of the study that has been done in the last years and the identification of the various employees not covered by pension plans.

Mr. Cureatz: Possibly the striking of the commission spurred your particular organization to anticipate possible legislation and that it would be in your interest to move.

Mr. Jackson: You could also argue it is something that, if it were successful, would mean that you wouldn't have to have legislation on PURS.

Mr. Cureatz: Yes.

Mr. Speed: If this particular plan can accomplish good coverage, it can reduce the area of the uncovered on a voluntary basis; that's one thing. If it is still felt necessary to mandate pension coverage, then this could be a vehicle that would allow small employers to put in pension plans without a lot of difficulty. It can serve a double purpose.

Mr. Cureatz: Thank you.

Mr. Peterson: I am very interested in the form in which the plan exists now, and I really think that your brief has been helpful. As you said, John, one of the big questions is the coverage issue. You point out the paucity of information in that area. It is certainly troubling me very much that we don't use an elephant gun to kill a mouse or, vice versa, ignore a more significant problem than we perhaps think.

On page eight of your supplement, when you are dealing with your own alternative to the PURS system and you would basically like to see more flexibility, you could use a PURS-type system or two or three other possibilities if we get to the point that we are mandating, but you are not too sure that we should mandate. You used to think that we should. Now you are not so sure that we should, pending further information. Am I reasonably summing up your position?

Mr. Panabaker: That is very close to my position, yes.

Mr. Peterson: The only thing that troubles me about this chart on page eight--allay my suspicions, allay my fears--is you operate on the premise that the lower income earner, that is, 50 per cent of the AIW, a guy making \$8,000 or \$9,000 a year today, you follow that premise through and say, "Well, since he was poor in his working life he should be poor in his retirement life."

Mr. Panabaker: No.

Mr. Peterson: Isn't that what you are saying?

Mr. Panabaker: We are saying that it is not necessarily a good thing to provide retirement benefits that are significantly greater than the earnings during a working lifetime.

Mr. Peterson: This offends my liberal instincts. I am not sure that we don't have to bring an element of social policy into this question to make sure that he isn't continually--

Mr. Panabaker: But you do that through the OAS/GIS approach and not through an earnings-related pension plan. If it becomes social policy and political policy to say that the person with 50 per cent of AIW should retire with disposable income of 150 per cent of what he had when he was working, if you can convince yourself that that is the appropriate way to go, then I think you do it through the OAS/GIS mechanism.

Mr. Peterson: My guess is that when you sort out the coverage problem and isolate who is not covered, that is the guy. The guy who is making twice the AIW, which is \$30,000 or \$35,000, probably has some provisions for himself. In a social sense, he is not our problem.

Mr. Dowsett: May I respond to this? You are attacking our basic assumption that overall pensions should try to replace something like 80 per cent of pre-retirement income. You are saying in your view that may not be appropriate for someone who during his working lifetime made only \$8,000 a year. I submit that if society decides that after retirement that kind of person

should make something like 120 per cent of AIW after age 65, after he stops working, what about when he is still working? Why shouldn't that person make 120 per cent of 50 per cent of AIW while he is working?

You are opening up a whole new approach to the provision of the division of income in this country. I cannot accept the fact that while talking about pensions--and the association committee spent some time arguing about what is the basic thing we want to hang our hats on, and that is trying to replace the income or some portion of the income the worker was making while he was working after retirement--to go beyond that, to say that replacement ratios for some segment of the population should be 125 per cent of pre-retirement, that opens up a whole new area that we were not prepared to get into.

Mr. Jackson: That really should be done by the government in its social policies. Canada has gone very much that way with the flat OAS plus an income-related CPP. The social system of Canada stacks up very well against the rest of the world in that characteristic. If you are only earning \$8,000 and you are saying, "We don't want to pay active people \$10,000 because they damn well are able to get out and work and they should find a job, but when they are retired they are unable to work and therefore we should pay them \$10,000," if that is the essence of your argument, then I say that should be done through old age security or GIS.

Mr. Peterson: I see what you are saying, but let us take the reality. The chap making 200 per cent of AIW or 150 per cent is probably making some provision for his own retirement even if he is not in the plan.

Mr. Dowsett: There are a lot of people in society today over the age of 65 who earned an income which was maybe 150 per cent of AIW 30 years ago, who did not make any provision through private sources and are solely reliant on OAS and GIS now and are in trouble. Minimum mandated pensions of this variety, the kind that we have proposed, would take that person at 100 per cent, or 150 per cent of the AIW, and say: "You have to add to what you will get some time down the line through CPP and OAS. You have to add something more. You and your employer together have to put some more money aside so that 30 years from now there will be an adequate three-legged income for you."

Mr. Peterson: You are saying that too. You are forcing that guy to put up something himself.

Mr. Dowsett: Yes.

Mr. Peterson: But that is not going to force the poor guy to put something up.

Mr. Dowsett: No, because he is getting enough out of OAS and CPP.

Mr. Peterson: But just supposing that guy could squeeze two per cent out of his 50 per cent of the AIW, two per cent contribution out of his \$8,000 a year, you are operating on the premise that he cannot and you cannot tax him any higher.

Mr. Dowsett: And do not need to because of the replacement ratios. Look at the top line on page eight--70, 95, 93, 116 already without any minimum mandated pension.

Mr. Peterson: But you think the first ratios are too high and you want to get the ratios down.

Mr. Dowsett: The first ratio at 116 or 142 is too high.

Mr. Peterson: You are saying to get them down because he only deserves a smaller percentage of his pre-retirement income.

Mr. Dowsett: It is not that he only deserves that. I guess our inclination in suggesting this skewing of the minimum mandated pension plan is to address the situation if the government of the day in the Legislature says, "We have to impose ourselves in the economic world out there and force something to happen." Where should we be doing it because of the biggest need? It is not in the area of the people making up to half AIW. It is not there because society has already taken steps there through OAS and CPP.

Mr. Peterson: But they are still below the poverty line in a number of cases even though they are getting maximum benefits. I can understand the philosophical consistency of what you are saying, and I do. I am just adding another dimension.

Mr. Dowsett: But if anything is to be done along those lines, I agree with what Mr. Jackson said, that it is surely through old age security payments and not through a wage-related private pension plan.

Mr. Peterson: Would you like to tax back over \$30,000 on the OAS?

Mr. Jackson: I don't know if we have really thought of that too much. I guess I am not sure exactly how much the contributions are. I have a little difficulty.

Mr. Panabaker: How much of it is supported from general revenue and how much from OAS?

Mr. Peterson: All of it is. Haley wants to tax back all of it.

Mr. Jackson: Personally, I think the higher rates of tax on OAS is reasonable, but I do not think as an industry we have really addressed that problem.

Mr. Peterson: I am far more concerned about the low income type. I am not suggesting that the mechanism is (inaudible). I understand your points, but it is one possibility.

Mr. Panabaker: If you look at the table on page eight, Mr. Peterson, we were looking, fundamentally, at the 50 per cent of AIW plus GIS, which are the ratios 92, 106, 129 and 142. Even our scheme for a married couple at that level provides 129 per

cent. PURS is even more heavily loaded. We went as far as we felt we could go. If society accepts the point that you make about these people being in poverty, then we believe fully that GIS is the appropriate level.

Mr. Peterson: You would not believe the number of people who come into my office who cannot wait until they are 65 so at least they can semi-survive. That is a real problem. They expect to make more money when they are 65.

Mr. Panabaker: That raises a whole new avenue.

Mr. Peterson: I know it does. I am not sure I see the same social evil in it as you do.

Mr. Riddell: You suggest that pensions working for the retired person would be making more money than his working mate who is still sweating it out in the shop.

Interjections.

Mr. Dowsett: Our scheme doesn't do anything at all. That 93 and 129--that's there now. There isn't any benefit--

Mr. Peterson: And you don't recommend moving it to bring it into the philosophical framework that you have suggested?

Mr. Panabaker: Pardon me?

Mr. Peterson: You could recommend that we change the system to bring it down.

Mr. Panabaker: I guess even life insurance executives are conscious of certain political realities, Mr. Peterson.

Mr. Riddell: Don't get Peterson involved. He's a Liberal, but he's not all that left wing.

Interjections.

Mr. Mackenzie: Compared to you, Jack, he just might be.

Mr. Brandt: Compared to Jack, everybody's left wing.

Mr. Panabaker: On a point related to the one we have just been discussing, I think one of the most interesting calculations that we made during the course of our studies of the pension system is embodied in the tabulations on page 22 of the longer brief, which is the calculation of the replacement ratios.

I know myself that I was greatly astonished, not being retired, to see those calculations, which indicated that a person at average industrial wage of \$17,000 would have had a disposable income of \$13,171 prior to retirement; after retirement, assuming our plan, that person would have had disposable income of \$11,585. The \$11,585 related to \$17,000 doesn't sound very good, but the \$11,585 related to the \$13,171 looks a great deal better. Their figures on that page are very, very interesting, and I think will repay study.

Mr. Epp: I have two questions. I am a little confused, Mr. Panabaker, I suppose, on the position that the association has taken with respect to mandating. I understand that from the pension conference you were in favour of mandating, and now I get the impression that you are somewhat ambivalent about it. From our standpoint as a committee trying to study this particular problem, and mandating being very important, I would like a--

Mr. Panabaker: You would like a clearer statement?

Mr. Epp: Yes, because I think the insurance companies have a big stake in this whole problem, and it would help us to know where you stand on this.

Mr. Panabaker: I wish I could be more precise, Mr. Epp. I will take you through our thinking as I see it, and then perhaps either Rob or Sid would add to it.

Mr. Epp: I was wondering where that conversion was on the royal--

Mr. Panabaker: The conversion in the wrong way perhaps. We began to study the question of the makeup of the pension system as a committee about a year and a half ago and one of the first questions that we began to deal with was this question of coverage. That was prior, of course, to the publication of the royal commission. It was, I think, probably prior to the publication of the Lazar report which came out about the time we started our work.

As we began to grapple with that, the first hurdle that we had to get over as a committee was the philosophical question of whether or not we would be prepared to support mandating. After we had debated this at some considerable length, we decided that, given the way in which society is structured today, and particularly the question of the mobility of the population and so on, the question of coverage which might very well prove to be very difficult.

We had assumed that there would be more statistical evidence coming out in the royal commission report, among other places, that we could not philosophically oppose mandating. I think many of us would prefer a system where you did not have to even consider mandating.

4:10 p.m.

We decided at that point that we could not philosophically stand up and say, "You must never under any circumstances mandate." People might very well say: "Yes, but it is in your interests, as life insurance companies, as the prime carriers of small employers' pension plans, to insist on that. You are just feathering your own nests." Philosophically, we had to wrestle with that in the other direction. We had to bring ourselves to say, "We think there should be mandating." We think we came to the view that mandating was certainly a viable alternative and might very well become necessary, depending on the characteristics of the uncovered.

At the National Pension Conference, I referred to us as among the mandators because we were then and are still prepared to mandate it.

There are a great many people in the private sector who have said it is not necessary. It has been indicated, as Mr. Jackson has said, that the evidence is not as clear as it might be on the nature of the people who are not covered in the private sector, and we concluded that it would probably be desirable to know more about that because mandating is such a fundamental issue that it would be desirable to know as much as we can about that before we make that decision an irrevocable one, because once you have made it, you have made it.

There has not been a philosophical backing away, if I may quote one of the former leaders of Mr. Peterson's federal party, "Mandating if necessary, but not necessarily mandating".

Mr. Peterson: I assume we do not know what that means.

Mr. Brandt: Typical fuzzy thinking.

Mr. Panabaker: Basically, we feel it such an important decision that we want to make sure all the evidence is in and everyone is satisfied before that final decision is made.

Mr. Dowsett: Could I make a couple of additional points. Clearly at the National Pension Conference our position was mandate private pension plans if the only two options that the country is going to come to are either mandating private pensions or expanding the CPP/QPP. We were clear and argued that way.

If some sort of government involvement is required with a universal approach, please do not do it through expansion of the CPP/QPP, do it through mandating minimum private pensions. We have made that point quite clearly.

Another point that I think we have tried to bring out today is that we are in favour of mandating if it is the right form of mandating. The PURS form of mandating is not the right form of mandating because it addresses some segments of the community in an inappropriate way. We would much rather mandate private pensions along the lines of the proposals that we have in here.

We are concerned from another point of view that with the various different legislative initiatives that can be taken in this country between the federal government and the provincial governments--and all the different provincial governments--that if we come down hard on the side of mandating a minimum private pension for some layer of earnings that additionally, later on, there will be other elements to pension legislation on vesting, and post-retirement enrichment that will affect all of the existing pension plans that are out there now, and increase the costs for pensions above a mandated level.

We are concerned that the employers in this country will get slugged with both elements. That is the concern that has come to the fore in the last six months.

To come down and say you are in favour of mandating, perhaps we would say we are in favour of mandating provided the legislatures in the country do not force a lot of additional pension reform on other elements of the higher income earners, which will be very costly to employers. That has kind of forced us to come off our strong--

Mr. Dowsett: Does that help?

Mr. Peterson: What do you think of the system that the CMA suggests? Are you familiar with that? They said, "The employee can opt in and force his employer to go in." Is that appealing at all?

Mr. Jackson: No, I thought they felt the horns of a dilemma and they just sort of came up with a compromise.

Mr. Peterson: Everybody is playing politician on this issue.

Mr. Jackson: Yes, I guess if I could say, I would not disagree with anything that Mr. Panabaker and Mr. Dowsett said, although we have had lots of disagreements in the course of our discussions on this. But I think, in essence, the question is not one for actuaries or insurance people to decide, it is a philosophical question of how much are you going to legislate conduct of Canadians and what is a satisfactory coverage.

If you are philosophically inclined to say 100 per cent coverage is the only answer, you are not going to get it any way other than by legislation. That is one thing. A number of us are very much involved in some other organizations and because we are technical experts, we become often more involved than I would like in this same question of other organizations.

Let me talk of the Business Council, which is a group of about 150 of the largest companies in Canada. The feeling on that is: Is it fair to mandate additional costs to the big, good employers, if you like, who have the pensions and leave scot-free, all of those who have not put in pension plans? If there is a social problem here, isn't the social problem mostly with the uncovered?

I guess they are coming around to the feeling now that perhaps the best way is to have improvements only up to a certain level. I am not talking of this presentation, I am talking more about the Business Council. This is not a position, this is a trend of our thinking. That is why, I guess, the Business Council is not here formally to make a presentation to you because we have not formulated and gotten approval for our position. I think in the big business as distinct from the insurance--the insurance industry you might say are mostly suppliers--but the big users, which is the Business Council, the feeling is that one way of

pursuing this would be to have improvements only up to a certain level--up to one and a half times the industrial wage. If you are going to legislate improvements just go up to one and a half times average industrial wage; that is up to \$27,000 or something like that. If you are earning over that, surely the employer-union or the employee-employer relations can handle that. Let us leave a little freedom of choice because surely freedom of choice is a big important factor of democracy. Also, only apply this to future service and do not make it retroactive.

If you do make that sort of legislation, then you can see whether you have time then to investigate what the coverage is and whether these sorts of improvements on vesting and on excess interest and all of these other factors that we have been talking about are applicable to private industry that have plans. If by doing some of these things we encourage other people to get the coverage, then we are not caught with this bind that Rod Dowsett was talking about where a business right now is concerned if we go for just the improvements in the private sector we will be hit with costly improvements there. Later on somebody will decide that is not sufficient and they will come in with a mandatory plan and we get the double knock, which can escalate the costs to some employers to a point where they become uncompetitive, not only in the Canadian environment but particularly in the international.

The difficulty of pensions is the way the costs in the legislation impact on various people. That is more true on the indexing or the cost of inflation on pensioners than anything else because some employers in mature industries have a very high proportion of retired people.

4:20 p.m.

Mr. Chairman: Are there any further questions?

Thank you very much, gentlemen. It has been a very stimulating afternoon. Your submission and your answers to the varied questions have been not only provocative, but instructive as well. We appreciate your attendance.

Mr. Peterson: This whole coverage thing is really troubling me, and the more we get into it the more I am bothered about it.

Mr. Chairman: Will the members please remain? Gentlemen, there is some information that you wished, prepared by, or provided, certainly, if not prepared by Wells Bentley, and we have distributed that to you. It has been marked as Exhibit 87. That is PURS and the projection of benefits. All of you have that information that was requested.

There are a couple of other items you may wish to discuss. We canvassed the members in terms of an additional day, and it would seem that Monday, September 21, is the most popular day, a day that will accommodate most members. I think everyone can be here except one, and that is Mr. Epp.

I was saying, Mr. Epp, that we have canvassed all of our members to see what Monday in September might be most convenient, and the most convenient day to all of the members is September 21. That is taking into consideration those who cannot be present on any other days. There is only one person who cannot be present on September 21, and that happens to be you.

Mr. Epp: I think my earlier questionnaire--I filled in a supplementary one--indicated I could be present part of the day, but I have a speaking engagement that evening.

Mr. Chairman: It would be helpful because we might not need the entire day, depending on the nature of the interim report and the degree of agreement.

Mr. Epp: I would be reluctant to change my engagement because I have already changed it once.

Mr. Chairman: Okay. I thought I should alert those members who are here now to set aside that day, if they will.

Mr. Peterson, you had an additional matter.

Mr. Peterson: Yes. I am very troubled by this coverage question. It seems to me the more we get into it the more problems we have with it. We have all the experts coming, and they don't know the bloody answer to the question.

I am not suggesting this positively; I just want your reaction. Maybe this is an area where we have to commission some independent research. It seems to me that maybe we would have to give some very serious thought to how we did it. I would like Wells's thoughts on this issue. Maybe I am an alarmist. Maybe we have enough information and I am just not aware of it, or maybe it is not as big a problem as I think, but certainly as it is developing, it is something we just can't get any uniformity of opinion on. Nobody knows the answer to it.

Mr. Bentley: It is true there is no study that I am aware of that gives you the definitive answer you seem to be looking for.

Mr. Peterson: Would it be helpful if we had one? Maybe it won't teach us anything we don't know.

Mr. Bentley: I doubt like hell if it will teach you anything that you don't have a feel for already. You know there is an uncovered area, you know the areas of people. You spoke of them. All of you have spoken of them. You have a great concern.

Mr. Mackenzie: The issue is compounded by the question of adequacy where you do have some coverage.

Mr. Bentley: That's right. I can find people who can do a study. I'm not sure whether you could probably accept the study as being a valid study. It would probably take anywhere from three to four months to complete, because you have to search in

different areas for the information: through income tax records, from which we can get certain information; from Stats Canada records--

Mr. Peterson: Are you a spy?

Mr. Bentley: No, we don't have a spy. It's just that I know people who can get information from tax returns in total that will give some indication of it. Harry Weeks, for instance, has utilized this in some of his work, particularly in looking at RRSPs and this kind of information. But I'm not sure that will assist you materially in knowing whether it's 20, 25 or 30 per cent, and I think that's the area you are really looking at now.

My own studies indicate--and I haven't done one for a number of years; the last time I did one on the back of a package of cigarettes, I think, or something of that kind--that approximately 65 per cent of people a couple of years ago were at least employed. But under the current vesting rules, which allow people to lose rights, I cannot get information and I know of no place except in the province of Québec where we can get any indication of how many people under the current rules lose pension or prospective pension entitlements. I'm not even sure that's of value to you. It hasn't been to me, because I've had it available to me and I've not been able to persuade anybody in the past to change the vesting rules.

Mr. Mackenzie: Surely the royal commission says it's a problem. That's one of the things we're dealing with.

Mr. Peterson: Do you guys hear my concern, and do you see any solutions to it? Maybe we just have to wrestle with it.

Mr. Chairman: Your concern, of course, is one shared, I think, by most of us or all of us, depending on that target group and the need to address a problem, if there is a significant problem, unless you are either for or against the mandatory plan, whether it's PURS or some other type of program. I think that's fundamental.

The problem as I see it is that you can get a picture at any one moment in time of that particular group, but it may be a very fluid group. To follow the life of any one of the individuals who make up that group may be very revealing, but it's not something I can see done. I'm not arguing; I'm just perplexed.

Mr. Bentley: Mr. Peterson, I find it difficult to believe that a specific number would be of any advantage.

Mr. Peterson: Even a profile will. But maybe that's such a big deal--

Mr. Bentley: The profiles are there. We have got a profile, which is a high profile, from Arnold Shell; we have got the profile from the royal commission report. Somewhere in that area is your concern. How you identify it absolutely I don't know. I don't think you can.

Mr. Epp: I don't know how we can resolve some of the other problems until we have resolved this one. Some of those others are so (inaudible). Coverage is the big problem.

Mr. Bentley: Coverage is a tremendous problem, and adequacy of income is a problem.

Mr. Brandt: Can it be absolutely addressed in the pension legislation, or is it in fact a philosophical social welfare problem?

Mr. Bentley: That's part of it, and immediacy certainly is a social problem. The immediate program, one of the things I first tried to lay out to you, is the social program now that you have to wrestle with outside of any possible pension arrangements you can contemplate either through legislation, marketing or whatever approach you decide to take. That is one problem you face now, and it's an immediate problem. Again, we don't know the exact extent of it. We don't know the levels of income that are appropriate for anybody to survive on in today's environment. You can guess anywhere from \$8,000 to \$14,000--take your pick, Mr. Peterson. I don't know which is right.

Mr. Chairman: I don't think we are going to resolve that at 4:30 p.m. It's something you can think about over the weekend. The committee will stand adjourned until 10 o'clock, Tuesday, September 1.

The committee adjourned at 4:30 p.m.

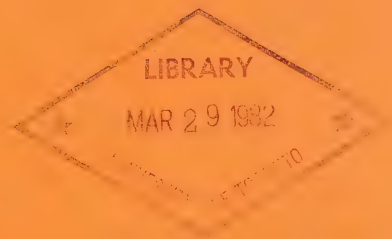
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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

TUESDAY, SEPTEMBER 1, 1981

Morning sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

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Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk pro tem: Arnott, D.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Also taking part:

Gordon, J. K. (Sudbury PC)

Witnesses:

Archer, E. L., Private Citizen

From William M. Mercer Limited:

Coward, L. E., Director

Juneja, D. S., President

Walker, R. M., Executive Vice-President

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, September 1, 1981

The committee met at 10:10 a.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I call the meeting to order. Since our last day a number of exhibits have been tabled. They are in your binders.

Exhibit number 84, dated August 27, 1981, is a statement to the committee from the Trust Companies Association of Canada. Exhibit 85, dated August 27, 1981, is, again, a submission to the committee from the Trust Companies Association of Canada. Exhibit 86, also dated August 27, 1981, is a submission from the Ontario Public Service Employees Union and, with the same date, exhibit 87, from the Pension Commission of Ontario, is PURS: Projection of Benefits. Exhibit 88, again for August 27, 1981, from the Mutual Life Assurance Company of Canada, is a paper entitled Inflation and Pensioners. The paper was dated July, 1981.

We are fortunate this morning in having with us--

Mr. McClellan: The document exhibit 87: Is that the work Mr. Bentley's office did or was it somebody else's?

Mr. Chairman: Yes, it is a projection of benefits which I think you asked Mr. Bentley to provide. He was good enough to do that and I am sure we will all rejoice in receiving this particular document.

Mr. Epp: Did everyone receive that? It does not seem to be on my desk.

Mr. Chairman: We shall investigate that because we should have it.

Mr. Epp: I have exhibits 88 to 92 inclusive.

Mr. Chairman: We will help you look through your papers.

Mr. Epp: Unless we got it last week.

Mr. Chairman: It was actually delivered Thursday.

Mr. Epp: Fair enough; then I have it upstairs.

Mr. Chairman: I was saying we are fortunate this morning in having three separate submissions. One is from your colleague, the member for Sudbury (Mr. Gordon), who is number one on the agenda. He will be followed by William M. Mercer Limited and then Mr. Edward Archer.

Mr. Gordon, welcome to the committee. We will turn the matter over to you now and you can present your brief any way you wish.

Mr. Gordon: Thank you, Mr. Chairman. Let me begin by thanking this committee for giving me the opportunity to present my concerns and those of my constituents.

I can assure you that your work is of tremendous interest to the working men and women of Sudbury. Their hopes, as those of many Ontarians, for a happy and secure retirement rest on the decisions you are making here and the recommendations which no doubt will come out of this committee.

Mr. McClellan: Can we quote you?

Mr. Gordon: Yes, you may.

Mr. Chairman: Incidentally, now that Mr. Gordon has been interrupted, copies of his submission are currently being run off and in a few moments you will have copies.

Mr. Epp: Literally hot off the press.

Mr. Gordon: Pensions, in particular old age pensions, are the foundation of our welfare policies. A century ago, pensions were awarded by grateful peoples to war heroes. Some of the oldest communities in Ontario were begun as awards and pensions to veterans. The old age pension first became a political issue in Great Britain.

The 1910 debate over pensions brought about fundamental changes in British government practice. In Canada, pensions were introduced 20 years later with much less controversy. Ontario fully supported the old age pension. The government of Premier Ferguson paid half the costs of introducing the system. Premier Ferguson accepted this reform "as a matter of rights."

The old age pension, therefore, is the beginning of our present welfare state system. It is where it all started. A lot of symbolic importance is attached to these pensions. If they continue to thrive and provide adequate security for our people, we can be assured that the entire social security system will continue to work.

On questions such as these, I believe there are no partisan boundaries. These are not questions to be considered from a Liberal, New Democratic or even a Progressive Conservative viewpoint. These are not questions, to me, of left or right.

Rather, the old age pension question is a fundamental issue in our society. It is a question that concerns all of us, no matter what our beliefs, because we all contribute to it and eventually we all benefit from the plan.

It is a question of common decency and common sense. This question is not a forum, in my view, for dogma and partisan rhetoric.

Following my election to Queen's Park, I read the proposals of the Haley Royal Commission on the Status of Pensions in Ontario. Some of them concerned me.

The heart of the Haley commission's proposals is the creation of the provincial universal retirement system--PURS. The concentration of funds and the management of PURS will be a great financial burden to the province. At a time when we are so close to balancing the budget and reducing the deficit, it would be unwise to embark on such an expensive proposition, particularly when there are other options available.

Mr. Peterson: You are saying PURS is a financial problem for the province?

Mr. Gordon: I see it as a financial problem for this province which is going to cost the government and the taxpayer a million dollars to administer. As I go on, you will find I point out the benefits I see in another program at present available to all Canadians.

Mr. Chairman: We will not anticipate you, Mr. Gordon.

Mr. Mackenzie: You feel we are so close to balancing the budget?

Mr. Gordon: A political statement.

Mr. Mackenzie: I thought that was a normal political dissertation.

Mr. Gordon: The Haley commission's report could not be more timely. Now is the time for governments, businesses and workers to begin thinking about pensions. With our population gradually getting older, we must plan now to provide for tomorrow's pensioners.

I took these proposals back home with me and I talked about pensions and pension issues with the people of Sudbury, with the workers, the small business people, the union officials, with white collar and blue collar people. All had an opinion to express; all had a concern. It is their concerns, as well as my own, which I will deal with today. In a world of inflation and changing technologies, their concern for their own future has increased a hundredfold.

To begin with, I want to deal with the subject of the portability of pension benefits. This is a controversial point. The Haley commission concluded that portability is impossible in a system of individual employer plans. Their solution is the creation of the Provincial universal retirement system. I do not believe PURS is the only solution to this problem. The creation of PURS, as described in the Haley commission's report, will cause many problems, problems for the economy and conflicts within our federal system of government.

Let me take a moment to outline some of the concerns PURS has raised in my mind. Basically, why should Ontario get involved

in running its own pension system at this time? I believe that pensions, like health care, are national priorities and concerns. I believe there should be a national minimum of pension care throughout Canada, not 10 different systems offering no more than what each provincial government can afford.

Again, PURS is designed to help solve the problem of portability. This is fine if workers limit themselves to Ontario. But what if an Ontario worker goes west to British Columbia or down to the Maritimes? How will his income in those provinces affect his contributions to PURS?

At a time when all levels of government should be strengthening national unity, the creation of PURS seems to be a step in the direction of increased provincialism. There must be a national answer to the problem of pensions, not just regional responses.

I believe the income a worker diverts to a pension plan is his own property. It does not belong to the plan or any other group or organization. It is the worker's income. It is only fair and reasonable, therefore, that a worker be allowed to take this income with him when he changes jobs.

I am convinced full portability of pensions must be implemented in Ontario. There must be some scheme or some formula which will allow the province to unify the intended effect of all the various individual pension programs which exist in Ontario. If necessary, you send them back to the drawing boards to take another look at them. This is a priority which this committee must address itself to. There are several avenues of approach which can be taken to meet the challenge of portable pensions.

One avenue would be to ensure that anyone who hires also makes provision for a retirement plan. The problem with this approach is there are many small businesses which simply cannot afford to establish any kind of pension system. I am not talking about the small skilled industries, firms that employ about 200 workers. I am talking about businesses like a corner hardware store or a seasonal employer like the operator of a fishing lodge.

Another avenue--one which I think is more practical--is simply to bring the Canada pension plan up to the standards proposed for PURS. If the federal government could provide a basic minimum that meets the needs of all pensioners, there would be no need to concern ourselves with portability. All workers, whether unionized or not, whether they have a savings plan or not, would have some security to rely on when they retired.

Where would the money come from? This committee has listened to many ideas. Some have suggested increased contributions from workers. I think we should also look at the other side of the coin, to the companies which benefit from the effort, dedication and perseverance of their employees.

In today's world, our social conscience is aware of the need to provide adequate wages. It should also be aware of the need to provide adequate pensions.

A worker gives a lot when he joins a firm. He gives his time, his experience, his loyalty, his pride and his skill. Dedicated workers make a firm, just as much as sound management at the top. I believe a company which has benefited so long from the efforts of talented individuals should reward them with security following retirement.

Some may say my kind of thinking would drive investment away from Ontario and Canada if it became law. I don't buy that argument. I think businesses choose to locate in an area where they know workers are well trained and their basic welfare needs taken care of. An effective welfare system is a plus in the eyes of investors. It means their company can get down to the business of business and not have to worry about negotiating basic benefit packages with their workers.

10:20 a.m.

In the meantime I believe the province must take action to require workers and management to take responsibility for retired employees. Unions must negotiate pension benefits with management, not in an atmosphere of confrontation and distrust, but one of co-operation and harmony. In Sudbury, for example, it is Inco, not the union or the workers themselves, which controls the pension plan. Therefore, it is management that decides how to offset inflation's effect on retired employees. This doesn't happen unless there is a great deal of pressure from the union.

As you are aware there is a legal precedent for the discussion of pensions in worker-management contract negotiations. Several years ago the British Columbia Labour Relations Board ruled that it is congruent with the law for unions to negotiate on behalf of individuals who are no longer active workers. The board added that it was also the legal right of employers to refuse to discuss pensions and that union membership was entitled to follow the normal avenues available for resolving the dispute, including strike action.

This dispute--the Canadian Paperworkers Union versus the Pulp and Paper Industrial Relations Bureau--has set an important precedent. Although unions do not represent that many workers in Ontario, I believe it would be worth while for the Labour Relations Act to be amended to require the discussion of pensions in contract negotiations.

This would be particularly useful for industries which involve working under hazardous conditions such as mining, smelting, working in a chemical plant or on an oil rig. All this will improve the lot of organized workers in Ontario, but does not do away with the need for an upgraded CPP.

I am also concerned that seniors have some protection from the ravages of inflation. There must be some form of indexing retirement pensions.

The Haley commission has pointed out that employers are not legally responsible for indexing pensions. If an upgraded CPP were financed by an excess profit tax it would be possible to introduce

some sort of indexing into its benefits. Also, with pensions becoming part of contract negotiations, workers and management would have the responsibility of making an appropriate solution for their industry.

These then are the major concerns the people of Sudbury wanted me to bring before this committee. There are others and I shall briefly touch on each before summing up.

We are past the halfway mark in the International Year of Disabled Persons. We have seen a variety of initiatives from all levels of government. Ontario has been particularly active in encouraging positive programs to bring the disabled out of homes and treatment centres and back into community life. I think it fitting that this committee give some time to the issue of pensions for the disabled.

In many ways the disabled and senior citizens are in the same boat. Both receive pensions but suffer from the rising cost of living. Both are prevented by either age or disability from participating to their full potential in the community, yet both the disabled and senior citizens have something to offer. Both have experience and strength of character which are required by our younger people and add lustre to the community. The disabled, just as much as senior citizens, require a fair break on pensions.

I would like this committee to really think about that in relation to all the briefs that have been presented to you. The disabled, particularly those people who have to take pensions from industry because of disabilities, are faced with some very real hardships when it comes to the amount of money they have to live on.

In addition there is the question of survivor benefits. This committee should consider what benefits are due widows and orphans, those who depend on the income of a pensioner. Common decency requires that they be looked after or given the opportunity to look after themselves. In talking to Jim Hickey of the Steelworkers, he talks about a vested pension when an employee goes to another company and leaves his pension vested in the company he was with before. When he dies, what does his widow get? That is the important problem.

I think we have an obligation in our society to recognize that when a man or a woman works for a business, for a concern, they are adding to the overall total economy; they are making a good life for Ontario, a good life for this province, for its people and I think we have an obligation to those people in social justice.

Finally, people in my community are concerned about the relationship between pension programs and the separation of common property following a marriage breakup. Clarification is required to see that the law is sound and works fairly to the benefit of all parties involved.

A sound pension system is to the benefit of all in Ontario. A sound pension system guarantees security to the working men and

women in this province; provides industry with a stable, motivated work force; and ensures a healthy demand for goods and services from all ages and income levels.

No one can argue with the good that pensions have accomplished. Extending pensions as a matter of right has made Ontario a better place to live and work. The proposals I have discussed today will I believe, strengthen the pension system in Ontario. Decentralized control will continue, but increased responsibility will ensure quality benefits and a protection from inflation.

No one envies the great responsibility that has been given to members of this committee. Your decisions will have a profound impact on the quality of life in Ontario I believe for years to come. It is your decision to either strengthen the pension system as we now know it with your recommendations, or to opt for new and revolutionary formulas.

I wish you the best in your deliberations and I want to assure you that the hopes of the working people of Sudbury are with you. I want to thank you for your time and patience.

Mr. Chairman: Thank you very much, Mr. Gordon. Mr. McClellan, you have a question?

Mr. McClellan: Just really a couple, Mr. Chairman. It is too bad you weren't a member of the Conservative delegation to this committee or we might have had--

Interjections.

Mr. Chairman: Don't prejudge your Conservative colleagues now, Mr. McClellan.

Mr. Mackenzie: At least I am going to watch a couple of votes very carefully. This is the most encouraging thing that has happened to the government members yet.

Mr. McClellan: I suppose my question is a technical question. My colleague and myself support essentially the proposal that you are putting forward; that is to say that the same course, the rational course, is to expand upon the pension system that has already been built and developed in this country; that is to upgrade the Canada Pension Plan.

Our problem is a technical one. How do we get around the stumbling block that the principle opponent in Canada to an upgrading of the Canada Pension Plan happens to be the Treasurer of Ontario (Mr. F. S. Miller)? Do you have any advice to us?

Mr. Gordon: I think you probably have the same problem that I have from time to time in sometimes persuading people that some of the views that I express, just philosophic points of view, are ones that are more palatable than others.

Mr. McClellan: At any rate, one message that you are bringing to the committee is a message from your own community in which, if I can paraphrase what you were saying from where you

sit, the people in your community are saying the same things to you as they say to Floyd Laughren and Elie Martel--if we are going to make reforms in the pension system we had better make them to the Canada Pension Plan.

Mr. Gordon: I think what we are really talking about here is the whole question of universality and affordability. To me it just seems logical when you have a system that has been established that you make what reforms you can to make it into a better system, because pensions to me are a countrywide right and resolve, just the same as health is.

How do you get 10 provinces to agree that they are going to have somewhat similar programs and we are all going to sit down and sort of mesh our programs--we are going to mesh PURS with Alberta and BC and so forth and so on? I do not think that is possible. So what is required here I think is a federal response to pensions.

Now mind you, I mean I have to be fair, in one sense I can see the concern that some people have in this province--perhaps not enough pension money is being involved in what they call the creation of new building, construction and things like that. They are afraid if too much money just goes into the government coffers then the government will use it in any way they want.

I can see that is a problem. But that is something which can be wrestled with. There is always the--

10:30 a.m.

Mr. Mackenzie: Put a hell of a lot more of it into housing. I think we could certainly wrestle with it. There are many ways we could--

Mr. Gordon: There are ways and means in which we can find accommodation between differing points of view as to how we are going to give people in Ontario or in Canada better pensions. I really do not see, at the present time, that PURS is the most attractive vehicle and I have to come and say so.

Mr. McClellan: Just one additional question. On page three of your brief you say that your principal concern with the PURS proposal has to do with what you call the concentration of funds, together with the management of PURS. You say the concentration of funds--presumably in the PURS program--and the management of PURS would be a great financial burden to the province.

Could you expand a little bit on your concern with respect to the concentration of funds in PURS?

Mr. Gordon: Yes. Let us just talk about that for a minute. First of all, the government of Ontario does not have the kinds of sources of revenues or as broad a base when it comes to revenue as the federal government has. For us to ignore the fact that there is another level of government which has a much broader financial base to support a pension program is folly and I just do not agree with it.

Mr. Peterson: What is this great financial burden to the province?

Mr. Chairman: Are you finished, Mr. McClellan? Then Mr. Peterson is next.

Mr. Peterson: I do not understand this great financial burden to the province which you are describing.

Mr. Gordon: First of all I made it clear that for the province to finance this particular pension program through the type of administration we would have to set up, the complexities of government which always come with it, the bureaucracies, when you consider the kinds of taxes that would very likely be involved, I think you would have a little more coming from certain sectors of this province, the people of this province, the employers of this province, than some people would like and this would take away, to a certain extent, from some of the other programs.

Mr. Peterson: PURS is a highly decentralized program.

Mr. Gordon: Just let me finish now. This is simply all I mean. I would not read into it any more than that.

Mr. Peterson: You are just saying it is a little more bureaucracy.

Mr. Gordon: My answer was very self-explanatory.

Mr. Peterson: You used words like "great financial burden to the province." That is very emotive and I am just trying to understand what you mean. It is not self-explanatory, very frankly, but, however.

What do you tell people in Sudbury when they say, "What is Mr. Miller's position?" and you say: "Gee, this is his position. He has articulated these six principles"?

Mr. Gordon: I am a very--how would you say it?--open sort of fellow. We always manage to converse very well in Sudbury and I think they understand me and I understand them.

Mr. Peterson: That's about as helpful as you're--

Mr. Gordon: I think that is a good philosophic answer for you.

Mr. Chairman: It's certainly a free-wheeling one.

Mr. Peterson: You have a new suggestion here. You want to finance an expansion of CPP by an excess profits tax. You are not suggesting there should be increased contributions, you are suggesting an excess profit tax.

Could you tell me how that would work?

Mr. Gordon: First of all, I would not suggest that an employee should not pay more.

Mr. Peterson: You have made it--

Mr. Gordon: No. You have got to read it a little more closely than that.

Mr. Peterson: You just show me where--

Mr. Gordon: You have just come in and picked it up and have barely seen it. But, I would go on to say this. To me, to have the kinds of profits, for example, that the banks are rolling up right now, to ignore those is wrong.

The individual in our society, when he works for an employer, has a graduated form of income tax, and in the business world I certainly think there has been more recognition of the fact that they have a certain obligation, in social justice, to see that the employees are taken care of. If you take a look, even today, at some of the submissions that are being made to the Bar Association of British Columbia, you can see that there is a real concern. I really think it is in the interests of business to recognize this obligation.

Mr. Peterson: I just want to be specific here. Your plan would have the employee contribution to the CPP stay the same?

Mr. Gordon: No.

Mr. Peterson: Well, what--

Mr. Gordon: It would have to be worked out by the people who work these things out, the statisticians and the actuarial people.

Mr. Peterson: These are very important political decisions and since you made a political statement here, Mr. Gordon, I figured you would have a political response for that.

Mr. Gordon: I think I made a very clear response.

Mr. Peterson: Then help me out.

So you are saying it should be shared now. Should it be financed through an excess profits tax? Which is a novel suggestion. This is the first time we have heard that. And it may be an interesting one.

Most people say that doubling the CPP would cost 15 to 17 per cent of the payroll. Is it your point that the employer should pay that? Should it be financed out of payroll deduction? Or should it be financed out of an excess profits tax, and if so, is that a profit on (inaudible)--

Mr. Gordon: You have to look--

Mr. Peterson: --or Inco, or who are you after?

Mr. Gordon: No. I think you have to look at all sources of income, and you have to look at both the employee and you have

to look at the employer. You have to work out a formula that is acceptable and one that people can live with. I think that is a very clear answer.

Mr. Chairman: I suppose, Mr. Gordon, you have to bear in mind that pension premiums or contributions are considered deferred wages as well in that proposition of yours.

Mr. Peterson: Well, they are considered a tax for the CPP; there is no alternative to it. You recognize, of course, our jurisdictional problem, that we do not have--I understand your point in asking for uniformity or a national plan; I certainly think there is some sympathy for that.

That being said, we have limited jurisdiction here, as you are very much well aware, in this committee. We can only make our recommendations to the province of Ontario. So we would have to work, in a sense, in that context too. But you would tax banks in Ontario to finance a local program (inaudible)?

Mr. Gordon: I think that would be one source. It is quite clear as to what I was talking about. We tax them now. We tax the industry and businesses now, and we tax people. That is not a new concept.

Mr. Peterson: How does the (inaudible)--

Mr. Gordon: I find your incredulity rather hard to understand.

Mr. Peterson: You obviously do not want to be very much more specific. If you want to come here and do a political statement, that is fine. Then we can invite every other member of parliament in here to make a political statement, Mr. Chairman, if that is the way you want to run the committee. It is quite all right with me, but I think we should offer that opportunity to every other member of parliament too.

Mr. Chairman: I am not taking your remarks, Mr. Peterson, as a criticism of the chairman. I do not think you really intended that.

There was a request by Mr. Gordon to appear before this committee; that request was received and acknowledged, and Mr. Gordon is here. Now if you or any other of your colleagues wish to appear to appear before this committee, then I would be happy to receive that request, and we will try to ensure that they are on the agenda.

I do not know whether your remarks are being critical of the presentation or not. I think Mr. Gordon has spent a lot of time preparing this particular presentation. He obviously subscribes to a position that a number of his colleagues do not subscribe to. It is a different point of view, and I do not see anything wrong with that.

He obviously has not got the statistical backup material. I do not think that is something that the persons appearing before

us necessarily have to have. It is a point of view that he has put to our committee for consideration, and I think that is legitimate.

10:40 a.m.

Mr. Williams: Mr. Chairman, I think Mr. Peterson's observations are completely inappropriate. I think any person has a right to come before this committee, no less a member of the Legislature. And as far as any political statements being made are concerned, I can't think of more of them being made in this committee than by the person who issued the criticism. I don't see why a member of the Legislature should not be heard out.

Mr. Chairman: I don't think there is any point in prolonging that type of discussion. Are you finished, Mr. Peterson?

Mr. Peterson: You can't help me out on your plan with any more specifics?

Mr. Gordon: I think I have put it clearly.

Mr. Peterson: If we are at a dead end, then we are at a dead end.

Mr. Chairman: Mr. Gillies.

Mr. Gillies: Thank you, Mr. Chairman. First of all, I would like to commend you, Mr. Gordon, for having the guts and the intelligence to put together a point of view that you feel represents your constituents and to come in and present it. Personally, while I am not saying we agree on every point in here, obviously a lot of thought and a lot of true feeling have gone into this. I might wish that a few others of the 125 had the same interest.

Mr. McClellan: Especially in your caucus.

Mr. Gillies: I haven't seen a floodgate of your members coming in, either, Ross.

Mr. McClellan: We represent a position that is clear and intelligible and coherent.

Mr. Mackenzie: And we hear all of them, incidentally.

Mr. McClellan: We are not all over the map.

Mr. Gillies: As Mr. Gordon said, though, he is an open-minded person; so as one open-minded fellow to another, Mr. Gordon, first, I think you have raised a very interesting point here. I would seek some clarification from the chair in that you have spoken about some things that concern me very much, one being disability pensions and the second being widows' pensions.

I have constituents in my office on a regular basis, widows in their early sixties, and disabled persons who, quite frankly, can't wait until the day they turn 65, because compared to what they are getting they feel that the heavens just open and the money pours in.

I am not too clear on this, Mr. Chairman. Do we have a mandate to examine those pensions, or is the mandate of this committee strictly old age pensions?

Mr. Chairman: The mandate of this committee is the review of the recommendations of the royal commission, and I think that is very clear. I don't think we should venture beyond that.

Mr. Gillies: Of course, implicit--

Mr. McClellan: It follows, though, that if you double the CPP, you are also having an impact on the disability benefits provisions of the Canada pension plan.

Mr. Gillies: Yes, part of the royal commission's report concerns public pensions. I am certainly glad you brought that to our attention. I would hope that in the remaining days perhaps one or two of the other delegations might have something to say about that area.

Would you see more value in the PURS type of program--would it be more acceptable to you--if there were agreement across the country? Because we have accepted in this committee that it would be practically a prerequisite of the program that there be some national accord on such a program.

Is your problem with PURS the fact that it is a money purchase type of plan, or is it the provincial jurisdiction that bothers you primarily?

Mr. Gordon: The thing that bothers me most is the fact we are having sort of regional responses to the problem that demands complete portability and universality, and that is not good enough.

I know there is bound to be a question--and this is a viewpoint--a question of philosophy between whether the money should be, by and large, largely going into a fund that is largely used for business purposes or whether it should be one that is more oriented into the government coffers.

I can see that there is bound to be a divergence of opinion there, but I think that is something that is probably a concern of this committee and something you are going to have to wrestle with. I think that probably somewhere in between is the answer, but I don't profess to be an expert in the field.

Mr. Gillies: The investment policy of the CPP is something that has concerned a lot of members of the committee. And something I feel, on which I might ask your thoughts, is that in creating such a large pool of money I am not at all convinced that leaving the jurisdiction with the CPP would eliminate the jurisdictional hassles, because I have to think when you create a pool of money that large in terms of billions of dollars that there is going to be manoeuvring at the constitutional level over control of it. I just throw that at you. I said quite early in the discussions that I thought we were approaching a constitutional argument.

The other thing--and this came up again last week when we were talking with some people from private pension industry who do not wish to see an expansion of the CPP--is that the point came up that, as it stands now, the CPP is not progressive; the contribution rate is the same whether you make \$10,000 a year or \$100,000 a year. Some would say it is then--

Mr. Mackenzie: You actually pay less of your income than (inaudible)

Mr. Gillies: Exactly. What I mean is, it is the same but proportionately it is lower. As it stands, then, it is a regressive tax.

I wonder if you have any thoughts. Would you see some form of indexation? Would you see a varying scale of contribution rates depending on income? Or how would you address that one?

Mr. Gordon: What you are raising is a very valid concern, but again I think that probably comes down to a philosophic question as to whether people should be paying the same basically up to a maximum or there should be a progressive graduation worked in. I think that is something this committee is going to have to wrestle with. It is not something I can answer for you.

Mr. Epp: Mr. Gordon, personally, I am a little surprised that you would recommend that these funds go into the public purse, simply because of the fact that experience has shown in the last number of years that the \$18 billion or \$19 billion the governments have borrowed from the CPP has been inflationary. In fact, no less a person than John White said in 1972 or 1973 that this is a great source of funds and they probably wouldn't be spending the money if they didn't have such easy access to the \$9 billion Ontario had to the fund; so it was being very inflationary.

Coming from Sudbury, you should be very interested in inflation. I am just wondering why you would feel that the private sector could not handle the funds better than the public sector.

Mr. Gordon: First of all, to answer the first part of your statement, that is your view and it is true, we do have inflation; but we have inflation all around the world. So to suggest we have inflation because the government of Ontario launched capital programs and program services involved for people with moneys that were available I think just isn't realistic.

Coming from Sudbury, yes, I think as long as those mines are going and the smelter workers have jobs and we are producing things, I don't think we are going to cry any crocodile tears.

In a sense you are misrepresenting me because, as I pointed out, I thought somewhere in between there would probably be an answer for the money going into the private sector and going in to the government sector. I think there can be a meeting place somewhere in between. But there are minds much finer than mine that will come up with that particular approach and that particular answer.

Mr. Epp: Do you mean some of the new funds would be going into the private sector and some of the new funds would be going into the public sector?

Mr. Gordon: Quite possibly, depending upon how this system is set up and what changes are made to CPP, because I think it is clear the federal government is looking at this whole question of pensions. They are going to be coming out with new proposals, and they are going to be discussing these things with the provinces, I am sure; they have to. Out of this I think you might be quite surprised at the kind of pension plan that develops.

I sincerely think this committee has a real opportunity in its approach and in its report to perhaps influence the kind of thinking that goes on within the provincial government with regard to possible future negotiations with the federal people.

That is why I really felt it was my obligation to come forward because, to answer the criticism of the chairman for having me appear, I think it is the duty of an MPP to express his views. Sometimes they might differ slightly from the party line, but at the same time I think you have to represent your constituents as best you can. I don't think you should be somebody who has a mind that has locked step with partisan rhetoric. That is why I am here, and I am enjoying it.

10:50 a.m.

Mr. Epp: Why do you feel so strongly that the governments could not come to some kind of accommodation with respect to--I appreciate your portability and universality principles because I think they are very important. If we are going to expand some kind of pension plan in Ontario I think it will have to have these very important ingredients in it.

But there are eight Progressive Conservative governments in provinces across the country and a Social Credit government in BC where the Conservatives are sending organizers to help them win the next election. Also there is the QPP in Quebec, which is somewhat separate from the CPP. I would have thought the opportunities for universality would have been just glorious in its moderation.

Experience would indicate there would be great unanimity among the provinces, yet you are telling me something that I find shocking--that all nine provinces would not be able to sit down and in five minutes agree on all these things.

Mr. Gordon: That is an interesting point of view. If you read the papers over the past year you can see there are difficulties when it comes to provinces seeing eye to eye.

Mr. Epp: Quite seriously, you don't think they could work something out if we had an expansion of the PURS program?

Mr. Gordon: I think it should be a federal response with close consultation with the provinces, taking into consideration the views of the provinces and coming up with something that is truly of benefit for all Canadians.

Mr. Epp: Be that PURS or CPP.

Mr. Gordon: I think CPP is the preferable way to go.

Mr. Cousens: Mr. Chairman, my question of Mr. Gordon has to do with where the money will come from. Where will the money come from to provide security for people in retirement? From reading your report, a company has to give some reward to its employees, and this would not only be large companies like Inco you referred to but also the corner store owner. So to what extent should a corporation or a proprietor have responsibility for contributing towards the retirement fund of his employee?

Second, to what extent should the employee himself be responsible for accumulating a certain amount of funding for that security you talk about?

Third, to what extent should the government, federal or provincial, take part in it?

I would like to get an insight into your own philosophy on those points.

Mr. Gordon: First of all, when we talk about the employer, I think we have to recognize that the answer is within the means that are available to that employer. They have to have sufficient means. That would have to be one of the criteria.

The employee naturally has an obligation to look to the future as well and to make an adequate contribution. But I think the government, being the chief arbitrator in all of these things, has to see--I guess this is the way it has been in this country for some time, and it is necessary too--that those of us who have more have an obligation to help and to take care of those who have not been as fortunate. So I think that is where the government looks at both the business or industry and the employee as well.

Mr. Mackenzie: First off, Mr. Gordon, I do not object at all to your making a presentation and I find that useful. I hope it is a feeling that is shared by more of your colleagues. I have never been known for any tact though. I guess I have some agreement with the position that Mr. Peterson has taken. Your colleague referred to "his guts and intelligence" for taking this kind of a position. I would be inclined to reserve judgement on that.

Guts and intelligence mean nothing if it is a political statement and we can all do the posturing. It is certainly not a position we have heard from most of the people in your caucus. Unless I am surprised, and it would be a pleasant surprise, the guts and intelligence will only be seen when we get down to some hard recommendations that deal with the future of pensions and whether or not somebody is towing the party line. But you know my position, which I have heard so often on issues. So I think the verdict is not in on that.

But that is not really what I want to dwell on. The other thing that worried me a bit about your brief--although I certainly

am supportive of the tenor of it--is that I am not sure you are coming to grips with the financing. This is certainly a bugaboo that our party gets nailed with on almost every social issue that comes up.

When you talk about where the money would come from--some have suggested increased contributions from workers--I think we should also look at the other side of the coin. To be kind to you, I took that as an acceptance, the fact there would be increased contributions from workers, but you sure as blazes have walked the fence on it. Somebody could read it either way in terms of that statement.

I would like to be sure you understand clearly, as we do, that if we are going to increase benefits and increase the coverage of the CPP the people are going to have to pay for it. We happen to think it is going to cost money--maybe not quite as much as some people think--and that it is going to be phased in over a fair period of time. I think what has to be understood by people and companies is just how we can phase in the doggone increases and when they start, and it probably should be very shortly.

When you do look at the other side of the coin--the only thing I see on page 11 is an upgraded CPP financed by an excess profits tax. If you will forgive me, I have great reservations about that. I think the straight percentage that both parties bear makes a hell of a lot more sense than trying to go into excess profits. My experience has been that it is not too hard to fool around with excess profits.

We found it particularly during the so-called price and wage controls and the branch plant economies where one hell of a lot of the costs were transferred because of the kind of shipping and materials arrangements that were made. We have done some work on that in the steelworkers' union, and I am sure even Mr. Hickey can tell you a little bit about that. Profits sure as hell were camouflaged during that period of time and I am not sure that we would gain a hell of a lot by trying to finance it with an excess profits tax.

I think we are going to have to bite the bullet and say, "Hey, it is going to cost this much more to companies and this much more to individuals if we are going to do certain things with the CPP." If I had seen that a little clearer I would have liked your brief a little more.

I am just wondering if you clearly understand that we are going to have to increase payments on behalf of ordinary people in this country. Also it may be that a direct approach rather than trying to rely on an excess profits tax may be the only way we are going to get the other half of that component out of the companies.

Mr. Gordon: I would just say to you that you don't get a loaf of bread without paying for it; the only other way is to steal it. You have to pay for that loaf of bread, so that is clear.

Mr. Mackenzie: That is a little clearer than could be taken out of your specific paper. I just wondered how you were

going to do the financing when I looked at the two ideas.

Mr. Chairman: You are getting closer. You are breaking bread now together.

Mr. McClellan: It is better than the suggestion of flipping a coin.

Mr. Mackenzie: I haven't yet come up with a better approach than confrontation. Whether I like it or not, that is going on to this day--it is the history of the trade union movement. I know even in the Stelco talks, one of the things the company won't entertain, period, is any more worker say or control in the pension plans. To date, I see absolutely no indication of any move on it.

Do you agree with the workers having a little more say? You refer to the Inco situation and the fact that the company controls the pension plan. Do you agree with the workers having a little more say both in the control and management of their own pension plans? I am referring now to the private sector, obviously.

Mr. Gordon: To be frank with you, I do. I think first of all that people are making a contribution of their own money. Of course, in the case of Inco they are not, but they are in another sense because--

Mr. Mackenzie: Well, they are. It is deferred wages.

Mr. Gordon: Let me finish. In a sense they are, through deferred wages, through negotiations and through the work and the profits that are going on. So I think that in the interests of social harmony, harmony within the work place, of finding better ways to resolve some of the problems that come about within the environment of the work place we must have more consultation. We cannot stand still in this province.

We can't stand still anywhere in the world. We are always faced with one constant in life and that is change. We must adapt and we must find better ways. That is part of being a human being. I think that is the thing that makes us what we are and has given us the kind of world we have today. Some people might not like everything they see in the world today, but we have it. That is the way I see it.

11 a.m.

Mr. Chairman: Thank you very much, Mr. Gordon. I appreciate your appearing before us and giving us the benefit of your views.

Mr. Gordon: Thank you very much, Mr. Chairman. I certainly enjoyed it and I am sure this committee will come out with some very interesting statements regarding this.

Mr. Chairman: The next presentation is by William Mercer Limited. We have Mr. Juneja, president; Mr. Ronald Walker, executive vice-president; and Mr. Lawrence Coward, a director.

Now that you have taken your rightful places before the microphones, I will turn your presentation over to you. For the benefit of the committee members the submission is exhibit 56.

Mr. Juneja: Mr. Chairman, we are making this presentation on behalf of William M. Mercer Limited, a firm of compensation and applied benefit consultants. It has been in existence for 36 years, has offices in Ottawa, Canada, and has between 3,500 and 4,000 clients. We thought we would make some recommendations which were made to you through that letter of August 14.

I will summarize the recommendations quickly and they are as follows:

1. We believe that all retired senior Canadians should have their incomes made up to a minimum standard, not less than the publicly-accepted poverty line.

2. We recommend the approval by Ontario of amendments to the Canada pension plan to raise the YMPE more rapidly to the average industrial wage and increase the dropout years for those who leave the work force to look after young children. Apart from these amendments, we are opposed to any further expansion of the Canada pension plan.

3. We see no merit in Ontario unilaterally legislating a system of mandatory minimum private pension plans such as PURS.

4. The private pension system is providing reasonable benefits to a large segment of the population and should be encouraged. Also Ontario should make very effort to reach agreement with other governments so that pension legislation will be uniform across Canada.

5. We support a substantial improvement in the conditions for preserving pensions for our mobile workers.

6. We support the proposition that the normal form of pensions should be one that continues to the spouse in 50 per cent of the original amount.

7. We believe that future pension income should be regarded as a source of support in the event of divorce or separation, but that the courts and not the employer should be responsible for deciding who is a spouse and how the pension should be divided.

8. We do not favour legislation imposing a particular scale of benefit increases after retirement on private pension plans. The government of Ontario should adopt, and insist that the federal government adopt, policies which would limit government induced inflation and remove the constraints on prefunding future benefit adjustments whether explicitly committed or not.

9. We do not believe that mandatory retirement should be prohibited by law.

These are our recommendations in brief and I will be happy to answer any questions.

Mr. McClellan: On point number five, one of the more encouraging aspects of this set of committee hearings for myself and my colleagues has been the obvious consensus that we can move substantially towards shortening the vesting period. I suppose the only thing the committee has to do is decide what is the shortest period of vesting we can achieve on a consensus basis.

You said two years or five years and you don't make any distinction. Would you argue the industry can afford two-year vesting and, if so, immediately or on a phased-in basis?

Mr. Coward: It is my belief industry could afford vesting after two years and that there would not be substantial opposition to such a step. The position industry takes generally is that they must remain competitive with other companies in a similar business. A company does not want to get out of line and introduce vesting after two years ahead of its competitors because that gives a competitor an advantage.

Mr. Peterson: Let us say the committee recommends two-year vesting. What would be the phase-in period for that proposition: Five years, two years, 10 years?

Mr. Coward: It really depends whether it is to be retroactive and whether you vest benefits already accumulated or whether you do what Ontario has done in the past, which is to be very sensitive about retroactivity and say that two-year vesting will apply to benefits accrued from now on.

If you do not make it retroactive to benefits already earned, I see no reason why it should not be brought in immediately. If you are going to cover benefits already earned, which would be all the benefits for those with less than 10 years of service, then you do need a few years of interim period.

Mr. Peterson: What is reasonable in that context, Mr. Coward?

Mr. Coward: I should think five years would be adequate.

Mr. McClellan: Do you have any idea what the cost might be, in payroll terms, of two-year vesting?

Mr. Coward: I have no figures I can give you at the moment. There have been a number of studies made of the cost of introducing vesting at different stages. There are some in the federal task force report. There were some estimates made by the Ontario portable pension committee way back when the Pension Benefits Act was first being considered and I don't see that they are too invalid today.

Mr. McClellan: The other area I had expected to question you on, but you don't cover it, is the question of indexation--have I missed something?

Mr. Coward: Item eight.

Mr. McClellan: I guess I was reading or something while you were going through that. At any rate, I understand Mercer has

done considerable work on excess interest method of indexation, is that correct?

Mr. Juneja: We have done quite a bit of work for different clients, basically such.

Mr. Peterson: This surprises me. I thought Mr. Coward was in favour of that vesting approach.

11:10 a.m.

Mr. Coward: Yes, I am in favour of indexing using excess interest, but that is not necessarily being in favour of legislation to require all employers to do it. On a previous occasion when I gave evidence I explained that the group I was speaking for was opposed and Mercer was opposed.

The point we made with emphasis is that we see the excess interest approach as being the only workable way of doing it from our viewpoint. There are still difficulties with that approach. One difficulty, of course, is to define your rate of interest. If you have a fund that is entirely invested in equities you have quite a problem.

Mr. Peterson: What is a reasonable number, two or six per cent or somewhere in between?

Mr. Juneja: One of the problems when you start talking about excess interest is that the plans right now are funded on the basis of different rates of interest, quite often between five and six. But the numbers could vary over a larger range. People have been talking of numbers which have no relevance to the rate of interest on which the plans are funded.

If you are talking of any number other than the rate of interest on which the plan is funded, then you are talking of immediate cost to the employer. If you are asking what is a reasonable number, you could come up with any reasonable number provided it is done in such a way that no additional cost is imposed on the present plans.

One way would be, for example, to say--suppose we are picking up a number like four. Some people have said that is a reasonable number.

Mr. Peterson: We have heard everything from two to six in this committee.

Mr. Juneja: From two to six, yes.

Let us say a number like four per cent was picked. One thing which would have to be done is to allow the current benefits to be reduced at retirement so that then excess interest over four per cent could be used. Benefits are funded on a six per cent interest. Then if the excess interest over four per cent has to be allowed, the plan does not have it because they have already taken credit for an interest rate of six per cent for funding that benefit.

Mr. McClellan: In effect, it is kind of a random approach.

Mr. R. Walker: Not necessarily. In that respect, I think our feeling about the excess interest approach is similar to our feeling about the continuation of survivor benefits after retirement.

If a plan is being funded, if the basic plan design is, as many plans are, that the pension is provided to the pensioner on a certain basis, then, if the pensioner is to have part of that pension continued to the spouse, there would be an adjustment to allow for the additional value of the spouse benefit.

In the same respect we are saying, if the plan value has been determined between the employer and the members on the basis of a six per cent interest rate, then, if excess over a smaller number like four per cent is to be allowed, then it makes appropriate sense for the benefit to be reduced.

Mr. Peterson: The starting base benefit.

Mr. R. Walker: The starting base benefit would be reduced so it could accelerate at that higher rate. The problem with the words "excess interest" is always the question of, excess over what? It has to be the excess over something.

Many employers will argue, and I think quite rightly, that in the last few years, because of inflation, their basic starting benefit at retirement is higher than it would need to be in a noninflationary environment to enable the pensioner to do something about looking after himself in his retirement.

If the pension is to be protected at a higher level by having excess interest over a number such as four per cent, it makes some sense to roll back the starting base benefit to allow for the higher escalation.

Mr. Peterson: My personal feeling on this one is--sorry Mr. McClellan, but I think this is an extremely important point--in my opinion, this whole question, because I think, because as I understand this committee, but certainly speaking for myself at least, I am drifting along the line that we need some sort of legislation in this area.

I realize how complicated and how technical it is and how we could screw up a lot of things if we are not careful. I am not particularly happy at leaving this question to the beneficence of an employer, so you have to help us out to make sure we do not do something stupid.

What I want to prevent is the kind of situation where an employer gets a windfall benefit from inflation and just gets the contribution. I do not know how you would draft that legislation. I really do not. It is a tricky piece, but at least the excess interest is earnings-related. We are not going to bankrupt anybody with that. We might just force--there are two arguments. You might get a better return on the fund and, on the other hand, you

might--some people argue you are going to turn the fund where it is more conservative if you bring in that kind of legislation.

Mr. R. Walker: With respect, the government of Ontario has another option. There is a compromise between doing nothing and leaving it to the beneficence of the employer, and imposing legislation on those employers who have plans. One of the problems of imposing indexing on employers who have plans is it does nothing about the employers who do not have plans.

There is another alternative. One of the principal concerns in private enterprise is indexing benefits to an external index without any fiscal control over where the money is going to come from to do that. One of the problems industry has is there are many public sector plans which have indexed to consumer price index or some other indexed benefits.

One of the things the government of Ontario can do is to remove that fear from the private sector employer that the imposition is likely to be similar to the public service plan by converting the public service plan to excess interest, and then watch for employers following suit. If they do not follow suit, then consider legislation at a later date. So there could be some steps taken by the government, within its own order as an employer, to adopt the more fiscally responsible--

Mr. Peterson: The public service came in here the other day and, as I recall the testimony, said they would be prepared, if they get the upside benefit of excess interest, to take the downside benefit and get rid of the eight per cent.

Am I repeating their position properly? I think I am. Is that your recollection?

Mr. Gillies: Yes, I believe that is right.

Mr. Peterson: Yes, that was an interesting thing.

Mr. R. Walker: What I am suggesting is there is a middle road between doing nothing and imposing legislation right off the bat, which is to establish the system for the public sector employees in relationship with the Ontario government as an employer. That, I feel personally, would remove some of the fears the private sector employer has about indexed benefits, because many private employers can see ways of achieving excess interest--a real rate of return.

Mr. Peterson: If you remove that from the public service, obviously you would have to legislate. You are just talking about the moral example of removing that from the--it is so powerful and so compelling that they would--

Mr. R. Walker: What I am suggesting--

Mr. Mackenzie: You have a quid pro quo deal--

Mr. Peterson: I may be crazy but I do not--I am not sure I agree with your--

Mr. Gillies: There are still all the federal public servants we could not touch.

Mr. Juneja: Our suggestion would include the federal government too, but here we are making the suggestion in relation to Ontario. That is what has put the employers in a very defensive mood--some sort of imposition of indexing and adding the cost.

Mr. Peterson: You are telling me there is so much paranoia about the richness of the benefits of the public sector--

Mr. Juneja: Yes.

Mr. Peterson: --that they would automatically improve their own if we were to sell it to them that--

Mr. Juneja: Yes.

Mr. R. Walker: That Pavlovian reaction to the word "indexing"--

Mr. Peterson: I do not know if I agree with that.

Mr. Juneja: The whole problem is that the public servants have done certain things to protect themselves against inflation first. That has created that sort of paranoia.

Mr. McClellan: This was very helpful. I am not sure--the Pavlovian response of Canadian businessmen continues to intrigue me with respect to this issue. Is it a result of the kind of Citizens' Coalition propaganda that has been running for the last three or four years focused on federal pensions?

11:20 a.m.

Mr. R. Walker: Who knows how many features contribute to that kind of environment?

Mr. McClellan: But you are seriously stating that that kind of emotional response to the code word "indexation" within the private sector is so strong--I am putting words in nobody in particular's mouth--that it outweighs the possibility or seems to preclude the possibility of a rational analysis of what the actual state of public sector employee plans are in the province of Ontario.

Mr. Coward: We think that is not true. We hear that many employers will not index their files; they only catalogue them.

Mr. McClellan: You realize, of course, that if we were to accept that level of irrationality, we would have to be looking even more--

Mr. R. Walker: Pavlovian reactions do not have to be irrational; they are just automatic.

Mr. McClellan: Sure. They are suprarational; they are reflex responses. They need to be dealt with, with respect,

legislatively, rather than through the powers of persuasion, unless you can win the approval of (inaudible)

Mr. R. Walker: The fact of the matter is that if you look at the recent experience, many employer clients have provided benefit increases to their pensioners. The principal concern of private sector employers is that that be done within affordable cost. The concern over CPI-linked indexing is that it is so unpredictable that the risk of the cost escalation is not acceptable to a private employer; so that when we hear of the question of indexing, the interpretation of that word is indexing to something like the CPI index.

The single word has now got an extended meaning, and the reaction is to the extended meaning, not to the word itself. Very many private employers are very concerned that their pensioners do have some benefit increases to offset the erosive effects of inflation.

The problem arises around the now extended meaning of the word "indexing." Indexing in the pension business has effectively changed its meaning. It does not mean providing any supplementation to pensioners. It means indexing benefits to the CPI in the same way that public sector plans are indexed. And we are concerned that we cannot suffer the risk of the cost variability involved in that kind of plan.

Mr. McClellan: That is helpful. With respect, if I can venture an opinion, I doubt very much if the proposition that we make an experiment with, in a sense, a mandatory excess earnings approach to indexation in the public sector, while leaving the private sector free to monitor it and respond as it feels appropriate, is a viable political action. I do not think it is. It is a totally (inaudible) guess at this point in time. Any government would have trouble with that proposition with its own employees.

Mr. Juneja: The other point we are making is that, if it were being done through legislation, then it should be through reallocation of resources rather than adding cost. Right now what has happened is, the way the plans have developed, more probably has been allocated to active lives and less to pensioners; so the legislation should look at the reallocation of those resources rather than imposing an additional burden on the plan.

Mr. McClellan: Does that impact at all on vesting costs?

Mr. Coward: I think it must impact on vesting costs, and I think that there is a strong argument that any kind of indexing or increases provided for retired life should be extended to the vested deferred pensions, if only because the period from the time the amount of pension is determined to when it is being received is even longer in the case of the deferred pensions.

Mr. McClellan: But you are still sticking by your recommendation? I just want to understand how recommendation five relates with recommendation eight. You are saying we can afford two-year vesting if extra excess interest indexation is done on a

voluntary basis; is that a fair way of saying what you said?

Mr. Juneja: We still primarily like to find solutions. The solutions to be found are in the context of the present resources being reallocated rather than additional moneys being found.

Mr. R. Walker: We can allow the employee, as he retires, to make the choice: Do you want to take the higher pension which doesn't increase or the lower pension which does?

Mr. Coward: Could I make one last comment on this? At the national pension conference there was almost unanimous agreement that earlier vesting was desirable and practical and should be done. There was almost unanimous disagreement that we should have legislation on indexing. I conducted workshops on this. I found nobody who was really supporting indexing private pensions. Even in the labour movement the attitude was: "Why bother? We are going for an increase in the Canada pension plan."

Since your job is the art of the practical, I am saying that there is strong, almost universal support for earlier vesting and there is not support, at least not among the people that I talked to, for indexing by law.

Mr. Mackenzie: I hear what you are saying, but my difficulty with it is that while the vesting is one obvious improvement that all of us see and that there appears to be some support for, nevertheless, other than the benevolence of the current employers or plans, the value of the earlier vesting is to a large extent lost without some form of indexing. I think this committee is going to have to come up with some form of indexing as well; it is pretty obvious. I see you are negating one, by saying yes, we can go for the earlier vesting, but, two, no we won't touch indexing.

Mr. Coward: I have always advocated that the employer should not make a distinction in matters of indexing between the pensions that are being paid and the deferred pensions. I still think we have a pretty satisfactory situation where nearly all major employers are increasing pensions after retirement. I think studies show--

Mr. Mackenzie: They themselves recognize the necessity of some form of--

Mr. Coward: You can say that it is pure benevolence, but I think there is also pressure on the employees' side and in some cases these matters are discussed in negotiations.

Mr. Mackenzie: It's called self-preservation by some people.

Mr. R. Walker: In the case of the employees, I think it isn't self-preservation; it is preservation of your former colleagues. If they were interested in self-preservation, they would be increasing their own benefits, not their pensioners'.

Mr. Juneja: There is recognition of the need to preserve the purchasing power of the pension. To some extent that is being done. I see that being more the motive for doing it. It is the compulsion which people are against, rather than the principle.

Mr. Mackenzie: We have asked this before, but what experience have you had of employers using excess interest to reduce their costs rather than to increase benefits?

Mr. R. Walker: In the studies that we have done there is a clear indication that up to date the rate of increase in employer contributions to pension plans has been higher than the rate of inflation; so that the benefit from the higher rate of return on new investment has gone, not to reduce employer contributions, at least up to date.

There are three possible places that the benefit has gone. First of all, it has gone to improve benefits. Many plans, as we have said, have improved benefits, and they have been using the increased rate of return on their new assets to pay for that. The other area in the benefit side is that that increased rate of return will have gone to improve the benefits of active members so that they start off with a higher pension.

The other source is that some of that will have been used to offset the effect on existing assets of recent inflation, because the value of existing assets has fallen in plans that had substantial funds with recent inflation. The effect of inflation on a pension fund is not automatically to increase the rate of return on the assets; it increases the rate of return on new funds, but it may well depress the market value of the existing assets. There is some cost to a pension fund itself in new inflation.

11:30 a.m.

Mr. Peterson: As I understand your remarks, the unarticulated major premise is that we, as a society, should not put any more into retirement benefits at this point as a percentage of GNP.

I just want to approach it from that point of view for a moment. Am I right in saying that is where you are coming from?

Mr. R. Walker: I would think so. What we are saying is that we should not legislate an increase.

Mr. Juneja: The whole process of determination of compensation is collective bargaining; here we are imposing an additional cost on the employers through this process, which is in conflict with so many other processes.

Mr. Peterson: We are also in a position to impose an additional cost to the employees if we so desire. In a sense it's society's cost, and you hear the whole argument about saving now for present consumption versus future security.

Is it your view in macroeconomic terms--maybe this is not a fair question--that we are contributing as much as we should be to

future income security as a nation now? I sort of gleaned that from what you meant.

Mr. Juneja: This is our point one. We are saying, as far as the minimum poverty line is concerned, that is where society should accept the cost of bringing the benefits up to that. Once it comes above that, and we are talking about the adequacy of benefits in relation to the total income a person had before retirement, that is something that should be done on a voluntary basis rather than having the government imposing the additional cost on the individuals or the employers to have the benefits after retirement, a proper relationship with earnings before retirement.

Mr. Peterson: You don't like the paternalistic view of us saying that you must save now in order to live better later, that we should not get involved in that.

Mr. Juneja: Up to the minimum level, yes; but over the minimum--

Mr. Peterson: But you want to fund that out of current revenue. Your point number one is to do that through Gains or GIS. Are we on the same wavelength here?

Mr. R. Walker: Yes.

Mr. Peterson: What is the standard that you would like to see? In your judgement, what is the standard we should be operating on for Gains or GIS? What do you think the minimum should be? The minimum now, I believe, is \$466 a month for a single pensioner.

Mr. Coward: Originally we were thinking of the Statistics Canada poverty line; we had some discussions as to whether that was quite high enough--

Mr. Williams: The minimum is \$479.

Mr. Peterson: I thought it was \$466.

Mr. Coward: --and decided not to hang our hats on the Statistics Canada poverty line, but to say there should be an acceptable minimum level which, in my view, should be a little higher than the Statistics Canada line.

Mr. Peterson: You don't have a specific figure in mind, Mr. Coward?

Mr. Coward: No.

Mr. Chairman: I was going to ask Mr. McClellan if he had finished his questions.

Mr. McClellan: Yes.

Mr. Peterson: Your point number three, this coverage question, that is really a very difficult question for the

committee. As I know you are aware, that is really the guts of the whole issue.

You don't like PURS; you don't like (inaudible). Can you enlighten this committee at all on your perception of the percentage of coverage, how big a problem we have or how big the coverage question is?

What we end up talking about, from your perspective, is the plans that are existing--the ones that you manage and do work on--and most of them functioning fairly well. Most of us are getting the impression that we don't want to meddle with those and make them worse.

You point out the downside of going for a PURS program because you might bring people down to a minimum standard rather than letting the free market determine these things. There are exceptions, but in a general sense they are not working too badly for those that exist. Apart from that problem, help us to--

Mr. R. Walker: I think it comes to be a question of what is society's responsibility in this area. The problem I think we have is dealing with the public perception that because we have an elderly poor problem in Canada, which we have, that somehow or other the private pension system has failed society. In fact, there are some features that have been raised which point out that in some areas the public perception of the private pension system having failed may have some rationale. Whether it is fair or unfair is a secondary debate, but there is at least some rationale for it.

The problem I have is that there is no way a wage-related system like the private pension system--even like the Canada pension plan--can solve the elderly poor problem of Canada. There is a huge--

Mr. Peterson: The present problem.

Mr. R. Walker: The long-term problem. There are two problems that I see. First of all, we have a present elderly poor problem and we have a long-term pension problem, but the fact of the matter is that the elderly poor problem is not a temporary problem, it is a permanent problem.

There are segments of our society which cannot be covered by a wage-related pension system. A wage-related pension system is never going to solve the problems of the elderly poor. There are always going to be disabled people who are unable to earn wages. There are going to be housewives--house-spouses if you like--who are unable to earn wages because they are depending on someone else's wages. There are transient workers who just don't have a record of regular wages that lends itself to be dealt with on a basis.

There are whole chunks of the population, the farm workers, domestics and so on, who get a large part of their income not from cash wages, but from housing and food and accommodation and so on. That segment of the population is never going to be covered by a

wage-related pension system. So you cannot look to an expanded CPP, the existing CPP, an expanded private system, a mandatory system, to solve the permanent problem of elderly poor. That has to be done, if it is to be done by society, through a social program such as--

Mr. Peterson: You pick up some of those with a mandatory--

Mr. R. Walker: You can reduce the problem, but you cannot eliminate it. I think the important point is that it is never going to be eliminated; all you are going to do is reduce it. If society needs to eliminate the problem, it has to look to some other way.

Once that problem is eliminated, then it becomes a decision for the individual, if he is self-employed, the individual in a small company with his individual employer, the individual as a member of a large group, to decide how much he is prepared to take out of current consumption to defer for future consumption as a retiree, how long should he have to work to make up the moneys. That is a personal decision of how much I want to spend now and how much I want to save for later. That is strictly a personal-political problem.

Mr. Peterson: Unless we stick our nose into that very question.

Mr. R. Walker: That is right. That is another question of imposing an acceptable level of saving on groups of society, but it is not going to be all of society. The basic point is that there is no wage system, even an expanded CPP, which is going to solve the problem of the elderly poor. It will reduce the problem, but it will never solve the problem.

Mr. Peterson: In your judgement, given your premises--and you make some interesting points--how much of the problem could we solve with a compulsory system, be it private or public? Are we always going to have a 10 per cent problem on your thesis or a 15 per cent problem?

11:40 p.m.

Mr. R. Walker: I don't think we have an idea of what the percentage would be because we don't have statistics for a lot of those people. We don't know, for example, how much of the existing poverty problem for elderly Canadians is poverty of survivors of people who were in pensions, problems of people who had pensions available but elected not to join when a plan was optional, poverty among people who were never employed or never worked in any regular employment, poverty among people who were supported in means other than cash wages.

The other problem we have is that society is changing. A lot of the present elderly poor are female, partly because they live longer than males; in spite of the commission's determination to have unisex tables, it still has not altered the fact that women do live longer than men. Probably some component of that will be

the surviving widows of male breadwinners in the old male chauvinist environment in which they grew up. But part of that problem is being solved in today's society with more women in the work force, more women earning pensions in their own right. The problem of the female elderly poor is going to reduce simply because of the employment structure we now have.

The problem this committee has to wrestle with is the time line. Any changes you make today in pensions are not going to mature for some years. A change in vesting is not going to affect the benefit payments that are actually made from pensions for some time. They have to wait for these people to leave their employment, become vested earlier and then retire into all these benefits. So, there is a necessarily long time line in the pension business between making a decision and seeing that decision have some effect.

Mr. Peterson: Unless you expanded CPP. Right?

Mr. R. Walker: It depends how it is expanded. It has to be expanded retroactively to have an immediate effect.

Mr. Peterson: One question I forgot to ask you, and you may have a figure or you may not. To bring Gains/GIS into line to a reasonable standard, whatever that is, if we recommend that to the Treasurer of this province and to the finance minister in Ottawa, in your opinion how much additional expenditure from the public purse would that require immediately?

Do you have a figure on that? Obviously it is a question of what number you choose, Mr. Coward. I understand that.

Mr. Coward: Yes. (Inaudible).

Mr. Peterson: In what range of additional current expenditure are we talking about? Do you know?

Mr. Coward: No, I do not. I have got a vague idea as to what we spend on GIS and--

Mr. Peterson: What do we spend on GIS a year? Do you know?

Mr. Coward: Two billion a year, is it?

Mr. Peterson: Two billion on GIS. And it is about six billion on OAS, is it not?

Mr. Coward: I think it is \$6.2 or \$6.3 billion.

Mr. Peterson: Something like that--okay. What does Gains cost us a year? Do you know offhand?

Just one other question. You were involved in a couple of double negatives on point nine. "We do not believe that mandatory retirement should be prohibited by law." In other words, you like 65. I assume that is what that means.

Mr. R. Walker: No.

Mr. Coward: No, not at all. We just do not think we need legislation on this subject.

Mr. R. Walker: Why interfere with the bargaining process? A lot of bargaining units--

Mr. Peterson: Sir, what does that sentence mean? Just read that to me.

Mr. R. Walker: It means we think mandatory retirement should be permitted.

Mr. Peterson: Is there not a law now that says 65?

Mr. R. Walker: You cannot--

Mr. Coward: An employer may retire his employees at 60, as happens in, say, police and in some other groups, or at 70. The employer can say, "This is the retirement age for my employees." The proposal is--

Mr. Peterson: Can any employer say retire a guy at 55 today because that is what he wants to do? Is that the law?

Mr. Coward: No. As long as it is uniformly applied to all employees, it has to be a--

Mr. Peterson: Is that in the Employment Standards Act? Does anybody--what is it?

Mr. Juneja: An employer may choose a retirement age for all his employees. What we are saying is that no changes should be made in the present legislation which would prohibit mandatory retirement.

Mr. Peterson: Why?

Mr. R. Walker: Because it is something the employer and his employee should be able to agree on.

Mr. Chairman: I think the Public Service Act (inaudible) legislation mandates retirement at 65 (inaudible).

Mr. Peterson: What about the private sector, John?

Mr. Chairman: I think that is open.

Mr. Coward: That was opened up and provision was made that public servants could stay beyond the retirement age under certain conditions.

Mr. Chairman: Special dispensation. But I don't think that is applicable to the private sector.

Mr. Peterson: You would like to see flexibility in that system.

Mr. Juneja: Flexibility should be retained. Every person should have the right to continue to an age which is not mandated--any age.

Mr. Peterson: Is your opinion based on experience say in the United States or Quebec now that they are about to introduce, as I understand, age 70? What is the matter with that?

Mr. Coward: I think one thing is that the employers may have to take a much tougher stand against employees who are felt to be losing their usefulness. Right now, an inefficient employee is often carried on a few years because he will soon be 65 and then he is out. But if the only reason an employee could be forced out is because of inefficiency many employers will impose stronger tests and I think quite rightly. They cannot carry inefficient people indefinitely.

The end effect, apart from a lot more administrative expense, a lot more grievances and a lot more strife, may well be that the employees will on average have to go earlier rather than later.

Mr. Williams: You said you have one more question 10 minutes ago and you have led in with three or four others. I think there are three or more other people who want to ask questions and we still have another delegation to hear from. I think in fairness to all the parties, let us divide the time a little more equally.

Mr. Peterson: I am in the chairman's hands.

Mr. Williams: I think you said twice, you had one more question and you gave two more questions which led to three or four others.

Mr. Chairman: Maybe he could move along.

Mr. Peterson: Are there any more arguments on that point? Is that the only argument?

Mr. Juneja: The employers at present do continue some employees on a voluntary basis, but that is by mutual agreement rather than because of any legal requirement.

Mr. Coward: Incidentally, some of the unions are opposed to any more on this subject.

Mr. R. Walker: The other argument is that it interferes with the collective bargaining process.

Mr. Peterson: We don't have collective bargaining everywhere, that is the problem.

Mr. Chairman: Mr. Cousens.

Mr. Cousens: I concur with Mr. Williams. I think if one person is going to monopolize one series of questions that is of interest particularly to himself, then we should rotate the

questions around so that each person can have an opportunity. I share your concept, John.

Mr. Chairman: On that point, may I just point out that I have not cut off any member regardless of political party. If you have a series of questions then we will entertain those questions until you are completed. That has been our method of operation in the past and I presume to carry on that way. I would ask though that members be mindful of the other persons who wish to ask questions and also be mindful that there are other delegations here as well.

Mr. Cousens: I really appreciated the presentation you have made. I would like it if you could briefly expand on number two--the reasons you are opposed to further expansion of the Canada pension plan. Could you outline the top three or four?

Mr. Coward: If you wish. The first reason is an expansion of the Canada pension plan does not help those who are most in need. The real people we are concerned with are those who have little or no earned income and do not benefit from it.

The second reason is that it gives the biggest subsidies to those with the biggest incomes. I should be heartily in favour of doubling the Canada pension plan and so should all the people who earn more than \$15,000 a year. But that is not good.

11:50 a.m.

The next point is that the ultimate contributions are going to be fairly high in any event. By the way we have been seeing that if the Canada pension plan is doubled the contributions would be 15 to 17 per cent. I saw a letter from Mr. Baldwin in the newspaper this week which said that is not high in comparison with other countries. He forgets that we also pay for old age security and GIS and Gains. So the 17 per cent if not comparable with the figures from other countries.

The idea of increasing the Canada pension plan either means you do not fund it, in which case we get to these quite high contribution rates, but if you fund it, then the size of the fund is just monstrous and ridiculous. I think there are very strong arguments that should not be done.

Finally, the increase in the Canada pension plan would disrupt private plans quite considerably. We support the increase in the YMPE, we support the dropout years, a modest increase would perhaps be tolerable, but the kind of increases in the Canada pension plan that are being discussed I think will be a very serious mistake. It does not go to the people who should be your chief concern.

Mr. Juneja: We feel the problem is that of the elderly poor and somehow there is confusion in the minds of the people. The problem is in one place and the solution is being found somewhere else. So the Canada pension plan expansion would not solve that problem. It is the particular responsibility of the individual--forced saving from him and giving that to the

government. We feel that, if anything, that will remove the incentive to work. A number of things have been done in the past which have tended to take away the incentive to be more productive. We don't think the country can afford to do more which would reduce the incentive the work.

Mr. Williams: I would like to come back to your item three, if I could, with a different concern than was discussed earlier. You make the statement that you see no merit in Ontario unilaterally legislating a system of mandatory minimum private pension plans such as PURS. You give a couple of reasons but your final conclusion as to why you take that position seems to be wrapped up in the comment that the system of mandatory plans is quite impractical in a federation with a mobile work force, except in the unlikely event that all provinces adopt the same plan at the same time.

Of course, that has given the committee a great deal of concern as well. I think it is understood if Ontario implemented a plan, it certainly wouldn't be as effective if the other provinces weren't in. But I don't think we as a committee have really addressed just how serious the problem is if Ontario goes it alone as far as the extent on a percentage basis that it would impede the mobility situation.

For instance, let us really look at some of the statistics we do know, which I don't think really have been touched on, and try to piece this together. Say none of the other provinces did go and Ontario did. First of all a third of the population of Canada is right here in our own province. Second, Quebec has its own plan in any event. Third, during the hearings with regard to the amount of mobility nobody has really come out with a statistic that I have heard of which indicates what percentage of that mobility is interprovince, rather than intraprovince.

There has been a unique situation just in the past year or two of a considerable amount of movement to western Canada, particularly Alberta--more so than in previous history. But outside of that period, which may be on a short-term historical situation based on the given circumstances of the day, traditionally that movement tends to be into Ontario rather than out, as far as mobility of the work force is concerned.

What I am trying to get a handle on, and I don't think you have really addressed it, is just how serious is the problem and how greatly would the Ontario plan be impaired if it was introduced and the other provinces did not implement a similar plan. Obviously there would be some impairment, but I am just wondering whether it is as great as we have all assumed in this committee. Nobody appearing before the committee has really analysed this thing that carefully that I am aware of.

Mr. Coward: I would suggest it would be very serious indeed. The employees in the other provinces would not have any of the problems solved that you are discussing and the demand for an increase in the Canada pension plan or other similar action would exist. You cannot solve half of the problems in one part of the country and leave the others high and dry.

As for the actual mobility, I would not think the effect would be overpowering there, although it would be inconvenient to have these different records kept. The chance of provincial agreement is very small indeed. After all, we have been trying since 1965 to get agreement on the Pension Benefits Acts and, if anything, we are now diverging. That would be serious.

I pointed out on a previous occasion the practical effect is that Ontario would subsidize other provinces. The amount Ontario citizens receive through Gains would be reduced when PURS came in, but Ontario would still have to help pay for other provinces through general taxation.

The advantage to the Ontario individuals also is very small. Those who are most in need are getting GIS and Gains. If they receive small benefits from PURS, it is simply cut back on the benefits they are already receiving. This system will not help employees who are in the lower earnings categories. It will simply change their pensions from GIS and Gains to PURS to a large extent. For these reasons we feel this is simply not a workable arrangement unless it could be done nationally.

Mr. Williams: Just coming back then to the bottom line of my question, do you have any statistical information that indicated what the degree of that mobility was out of province as compared to in-province?

Mr. Coward: No, we don't have any information.

Mr. R. Walker: I don't think migration statistics are maintained in a suitable form.

Mr. Williams: StatsCan does not--

Mr. R. Walker: No, not interprovincially. The trouble is that a lot of the mobility is in some sense multiple. There are all sorts of people who have transferred out of the province for two or three years and come back again, and it is very hard in the migration statistics that are published to deal with a long-term projection of an accumulation program like PURS.

On another issue, I think the last sentence in that paragraph was not intended to sum up the paragraph; it was a throwaway at the end effectively.

Mr. Williams: I thought it was sort of your strike three out of the three you had introduced on why that unilateral system should not be introduced. I thought it was a rather significant one that I don't think the committee has really addressed itself to--

Mr. R. Walker: I think it is, but it--

Mr. Williams: (Inaudible) how serious that mobility factor was.

Mr. Peterson: I think TEIGA has got some of those numbers.

Mr. Williams: I don't know that we have discussed them here in the committee.

Mr. Peterson: I don't think we have, but I think maybe we have to ask TEIGA for them.

Mr. Williams: I think we should because maybe the seriousness of the mobility factor has been really exaggerated, I don't know.

The other point that you make--I recognize the business of the pension would in cases reduce benefits from GIS and Gains, and that is certainly something that would have to be addressed. I will just wind up here because I know there is another delegation coming and there may be another question.

12 noon

You suggest, the way point four is written, that there is a probability that uniformity can be developed in the regulatory process. While you did highlight the fact it has taken some years to get movement in that area, nevertheless you seem to conclude it is achievable. I am just wondering why that can't be achievable as far--

Mr. Juneja: It is desirable.

Mr. Williams: It is most desirable, no question about it. It was made clear to us from day one in this committee that we have to have uniformity in whatever regulations we have in the pension field in the different provinces. But you seem to think it is something that is achievable whereas, under point three, the success of an Ontario plan without the other provinces is virtually impossible, if not impractical. I am just wondering why in one case you say that it can be achieved--

Mr. R. Walker: The uniformity we are suggesting is in supervisory legislation.

Mr. Williams: Yes, I realize that.

Mr. R. Walker: I would think that is a lot easier than enabling legislation to accumulate large amounts of money under a provincially sponsored PURS.

Mr. Williams: I recognize that. One is a much greater hurdle than the other.

Mr. Juneja: In that field we started 16 years back.

Mr. Williams: Other witnesses have been before us and suggested that, if Ontario did move in this direction, certainly the other provinces are waiting to see which way we are going to go and they could well follow suit if they develop a provincial plan. It might not be something that is going to be dealt with in isolation by Ontario to the exclusion of all the other provinces that have already turned their backs to this concept.

That has been suggested in some quarters, but that evidence has not come to this committee; in fact, to the contrary, for some sectors that we have had. Other provinces could well get on the bandwagon if we went that route.

Mr. Coward: I think you need all provinces to get on the bandwagon before you have a viable system.

Mr. Williams: Yes, ultimately you would want them all, no question about it, to make it the best system possible to achieve at a provincial level, universality in a national sense.

Mr. R. Walker: We could not even get all of the provinces to agree on CPP, so why would we get all 10 of them to agree on a supplement to the CPP, to the existing system?

Mr. Mackenzie: I just have one curiosity really. In recommendation one you seem to accept that the level needs to be raised in terms of an individual single pensioner. Then, in six, am I right in thinking there is a bit of a conflict here? You support the proposition that the normal form of pension should be one that continues to the spouse in 50 per cent of the original amount? It seems to me that--

Mr. Coward: In number one, we are talking about social security; in number six we are talking about the private plan.

Mr. Mackenzie: But is it not the same principle, that one needs more money than the two halves of a couple which has been pretty strongly brought forward to us in some of the presentations here? You are saying in terms of the plan that they should get only 50 per cent of it.

Mr. Coward: I certainly agree that from the social security point of view the single person should get more than 50 per cent of a married couple. With the other one, 50 per cent, 60 per cent and 66 2/3 per cent have been bandied around.

We think that, for legislation, 50 per cent should be the mandated amount. There would be nothing to prevent an employer from going to 60 per cent if he wished. I think legislation should leave some flexibility. You do get unusual circumstances where the spouse is better off than the husband even if she is not earning and so forth. I think we are talking about two quite different classes.

Mr. Mackenzie: I am not sure that the same principle is not totally involved here.

Mr. Juneja: The other reason for six was that we were again talking of using current resources, if this was the normal form of pension under those pension plans where right now the normal form of pension is a different one in the reduction, so the amount of reduction would be at least 50 per cent. That was one reason again in relation to the resources which are already there.

Mr. R. Walker: There is nothing to prevent the individual electing an option with a higher continuation.

Mr. Juneja: The plan should allow 60 or 100.

Mr. Mackenzie: We may decide to do better also, so the legislation minimum becomes the minimum in all (inaudible) cases also. I would have thought that you were a little more specific--

Mr. Juneja: One of the problems we have seen is that these options have been there--50 and 60 and 100 per cent to the survivor, but the costing has been poor. That is why we have individuals who did not pick up the right option. We are in favour of the normal form.

Mr. Chairman: Thank you very much, gentlemen. The discussion has been most helpful, I am sure, to the committee in the tasks with which it has to grapple. We appreciate your taking your time to come before us this morning.

The next person appearing is Mr. Edward Archer. Your brief is exhibit 90. Mr. Archer, we are in your hands now. We had hoped you might have got on a little bit earlier, but do not feel rushed because of the time. You carry on and make whatever presentation you wish. I may say that we all have copies of your submission.

Mr. Archer: First, I should like to say what I do and why I am here today; what I have done in the past.

For the last 25 years I have worked with wealthy entrepreneurs of the medium class from Ottawa to Chatham to Thunder Bay and Toronto. The reason I bring this up is that, to pay pensions, you have to have capital. These are the people who initiate a lot of capital in the country.

While working for them they asked me, as part of their financial advising, to initiate pension plans or improve pension plans, so I got involved in the implementation of pension plans. At the same time the tax reform, when it took place, CCH Canadian Limited put out a series on the tax reform. I had written books on estate taxes and succession duties which had seemed to sell pretty well, so they asked me to write a book on the problems of pension plans after tax reform. That is when I really got into the nitty-gritty of the thing apart from these small cases.

On the other hand, having done this and having had a tremendous amount of luck on the implementation of passing businesses down to children, I got involved with larger pension plans on the periphery, and so on, in the last few years.

I got very fed up because the federal government, which does so much work under the Income Tax Act in shaping pensions, never came out with any of their briefs, as far as I know, to remedy the situation.

When this committee was set up--at least not the committee, but when the pension commission was set up--there were literally hundreds of people in Ontario who were so pleased that somebody was starting to do something about pensions. They have already waited over three years very patiently to see what was happening.

Most of them knew that pensions were a provincial thing under the British North America Act. Then they were more surprised when this pension commission came up with ideas which to them looked very practical.

For 15 or 20 years they talked about the problems of vesting and the transferring of the funds from one plan to another, a fair allocation of company contributions. It all gets back to vesting, that you have to have immediate vesting; if you have immediate vesting, you solve all those problems.

The commission came up with a report on how to do it, to start it right off the bat. I would be tremendously pleased to see it implemented.

12:10 p.m.

With all due respect, I feel like David and Goliath, because the people who were ahead of me said it would take years and years to have this plan bear any fruit. But I think it would bear fruit within a few weeks, because we have to get more savings in this country and we have to have more investments. The implementation of PURS is going to start that and activate it; so it would have an effect on the economy right away.

I think there are a couple of ways this PURS system could be improved. One is, the small businessman has a peculiar problem of saving that I went into in my report. Vesting is the thing.

The other thing is that young people just hate to join pension plans. If you gave them the opportunity to take out the money they have accumulated up to 30 and buy a house, it would make a lot of them happier. In other words, if you make the people under age 30 happy to join PURS and you make the small businessman happy to join PURS, you are half way there to having it successful. I leave it like that because of time.

Mr. Williams: Mr. Archer, in reading through your brief there are a couple of questions I would like to raise that you have not touched on in your oral presentation.

First of all, one of the key points that you saw which you did mention in your oral presentation was what we see as a very positive impact on the economy if this were set up as far as generating capital within the private sector is concerned.

One of the recommendations in the report that deals with this specifically is the fact that under the PURS system the generation of those funds cannot be permitted to take place outside of the country; they have to be invested in Canada exclusively. Whereas, under other arrangements today and subject to federal legislation, there is a limited amount of investment permitted outside the country; I think it is up to 10 per cent of a portfolio of institutions that might be handling the pension program for different multinationals.

Do you feel that should be very much a part of the recommendations, if they went to the PURS program, that the fund

should not permitted to be invested outside of the country?

Mr. Archer: In the short-term view we need capital here, but in the long-term view we are going to be exporters; we are exporters of capital anyway, because we import other capital. I would say that it should be allowed.

Mr. Williams: You do?

Mr. Archer: It may be limited to 10 per cent.

Mr. Williams: You do not agree with that particular recommendation in the report?

Mr. Archer: No.

Mr. Williams: Another exception you take to the PURS recommendations, while supporting the proposal in principle, is that you say: "The proposed opting-out provision for PURS for employment pension plans, if kept, will surely introduce almost unsolvable administrative control problems" and, therefore, "this provision should be deleted."

I was wondering if you could perhaps clarify for the committee what administrative problems you see that would make it an unworkable situation. In doing that, I note that further on in your brief you suggest that the administration costs of the program could be less and the program could be more effective because of the technology that has been developed. I thought that perhaps they were a little contradictory in the views that you took.

In one place you felt that the administrative control of the opting-out provision would be so great as to make it impractical, while in the other case the processing of the program could be accommodated and facilitated and made more efficient, as I took it, from page six, because of the improvements in technology and--

Mr. Archer: I think I can show where they do not conflict at all.

A defined contribution plan says the benefits depend on the amount accumulated. In a money-purchase plan, when you put in the money you really do not know what you are going to have at retirement; you are going to have a pile of assets. So if somebody over here has a money-purchase plan, and somebody over here has a money-purchase plan, nobody knows who is going to have the best.

The commission has suggested that the Ontario benefits commission would sort of test each plan and say, "If you have as good benefits, then you can opt out." But there is no way, in a money-purchase plan, of showing that you have as good benefits as the other opportunities people have.

Under PURS, they are giving the opportunity to put your money through all these different financial intermediaries, and nobody can show that a company pension plan is as good, or could be better, so they cannot say when they have got a good one.

If it were a defined benefit plan and the company were saying, "This is what we give: At retirement you get 70 per cent of your last three years' salary, and it is going to be indexed," you can compare that with another plan outside, which says, "We are going to give so much, because you have got it." But with this one, you cannot define.

Mr. Williams: The defined contribution plans are more easily identified as to actual cost and benefits, are they not, than the designed benefit plans?

Mr. Archer: With the designed benefit plans, you know exactly what you are getting. On a money-purchase plan, you do not know what you are going to get at the end.

Mr. Williams: Some of the other witnesses we have had before us have indicated that the present provision in the recommendations for opting out are not broad enough, because of many of the variables that you see there that just are not recognized; and I think a fair amount of refinement would have to be done in that area to give practical application to that principle. But I do not see it as being insurmountable, as you may.

Mr. Archer: If you do do it, what have you gained? In other words, there are many employer pension plans now; and under this legislation you are giving the right to have opting out for the employees who, under the province of Ontario, should be able to join PURS.

Now it just does not sit right that, just because I work for a fellow, he decides I am not going to be in PURS. If you are going to have them opt out, you should let the employee opt back into PURS himself. But it should not be--

Mr. Williams: It is taken on the assumption that the opted-out plan would be as good as, or better than--

Mr. Archer: This is what I say. But you cannot define that "as good as;" and even if you could, who can maintain that their plan is better than the bank's plan or the insurance company's plan?

Mr. Williams: I think there are some difficulties there. I just have one more question--

Mr. Archer: Could I just go on to the second part? On the technological thing, this has really just happened in the last year or two. The banks have developed these computer systems, and developed these tremendous factories to do computer work, so that they can give you instant service; you can go to the bank and find out the cash you have in a Vancouver branch bank and everything else. This has completely changed the ability of the possible success of PURS, and that is why I am so hepped on this point.

12:20 p.m.

Mr. Williams: Just one last question, if I might, before you go on to others.

On pages seven and eight, you really touch on two proposals with regard to the PURS program on what you see as ways of improving upon it. One, you touch on the area of some tax credit arrangement being arranged, instead of a tax write-off; if that type of principle were considered, it might create a greater interest in the younger population in supporting the PURS concept. I am just wondering if you want to develop on that.

The other point was, coming back again to the opting out, on page eight you said, "The commission proposes, in its final suggestion in regard to PURS, that employers be allowed to opt out of PURS if they provide for their employees in the plan money-tax-purchase benefits equal to those provided under PURS." We just touched on that one really; you have already answered that one. So perhaps you could respond to that last point about the tax credit arrangement, rather than a tax write-off.

Mr. Archer: I really threw that in as a last thing because, under the Income Tax Act of Canada, we subsidize pensions so people have pensions, and we subsidize them by being able to write your contribution off.

People who are making large incomes really find it easy to contribute to RRSPs and pensions because they save so much income tax. If you look at all of the figures on RRSPs, it is the wealthier people who have put the money in. But why not give the fellow, the small businessman who is putting all of his money into the business, or the small farmer--he is not paying income tax; so he does not get any tax deferment on that money, except on the accumulation of interest; and the same with the fellow who never gets out of the small income tax bracket.

In tax law, there has been quite a tendency to switch from giving tax credits so that it is not regressive in your taxation. This is what I felt should be looked at in time. It is a very minor part of the thing, but it is important because the majority of the people are not going to save much on deferment of income tax, especially for the first few years.

Mr. Williams: It's an interesting paper. Thank you.

Mr. Chairman: Further questions?

Mr. Peterson: I am quite fascinated by your point about--I have never heard this before. As I understand it, it would be like a self-administered RRSP, but you just widen out the potential basket of investments for so-called entrepreneurial capital.

As I understand it, you would allow that farmer to buy a new tractor with this PURS account. Right? Or you would allow a young person to buy a house, or a small businessman to buy some capital item for his business.

Mr. Archer: Right.

Mr. Peterson: I see a bag full of--that tractor has depreciated and they can write that tractor off over five years,

or whatever; so, rather than having a \$60,000 tractor, he has a written-off tractor with, let us say, a salvage value of \$20,000 after 10 years. What are you doing for his retirement income?

Mr. Archer: First, he would buy the tractor himself and borrow the money from his PURS account.

Mr. Peterson: Oh. That is how it works?

Mr. Archer: Yes.

Mr. Peterson: So he would have to pay himself interest?

Mr. Archer: Yes.

Mr. Peterson: Now, if he defaulted to himself--

Mr. Archer: If he did and went into bankruptcy, then his PURS would have had the course.

Mr. Peterson: I see. I did not understand this point. You are saying--

Mr. Williams: (Inaudible) that is a risk factor. I do not know whether it would be acceptable.

Mr. Peterson: But you are saying only loans out. You are not saying only a debt out, no equity out?

Mr. Archer: Right.

Mr. Peterson: Okay.

Mr. Archer: If PURS went under--let us say a fellow did go in and do this and went bankrupt; he has got the rest of his life to go back into PURS and work for somebody else. He might go bankrupt at the end of his life, but very few businessmen go bankrupt at the end; it is in the first 10 years or so. They may try again. But most people cannot afford to go bankrupt.

Mr. Peterson: You could find a guy putting himself into bankruptcy because he defaulted on his own PURS account: "I think I will do it to myself, ranked as a first creditor and run away with whatever I can find."

Mr. Archer: This was to generate ideas. If I were employed to do this, you have to go into detail. Does that answer it?

Mr. Epp: Why did you suggest this? So an individual would have a source of funds, because you didn't think it was right for him, for instance, to get 15 per cent on his investment in PURS or whatever, and pay 20 per cent over here to buy a new tractor?

Mr. Archer: The facts of life are that people have different types of saving in this type of economy. If you are working for a big company and you save money, you save your money

and put it into investments. If you are a lawyer, you save your money and put it into mortgages and investments. But if you are a farmer, especially a farmer who is just starting out or a new businessman, you literally have to plough every cent back into expansion. This is the type of people I have been dealing with, with wives, children, everybody. Every bit of saving goes into new equipment.

Mr. Epp: Would you limit it to farmers and businesspeople?

Mr. Archer: Anybody who is in business for himself or can use it where he uses the durable himself.

Mr. Williams: That would be the self-employed?

Mr. Archer: If it is a fisherman.

Mr. Epp: Just self-employed; not if I just wanted to buy a new car?

Mr. Archer: No, no. Just for the assets that you use in a business activity.

Mr. Peterson: You would allow him to give himself a preferential rate of interest?

Mr. Archer: I think there would have to be a rule that there would be a regular rate of interest on it.

Mr. Epp: What advantage would there be then?

Mr. Archer: Oh, if he puts money into PURS every year and he buys bonds with it, he cannot use the same money to buy a tractor.

Mr. Peterson: A hell of an interesting idea.

Mr. Archer: All you are doing is adapting PURS to the actual facts of economic life; different people have different economic situations in this country. It is a pretty important difference.

Mr. Chairman: Further questions?

Thank you very much, Mr. Archer. That was a very stimulating discussion. We appreciate you coming before us today.

The committee recessed at 12:27 p.m.

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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

TUESDAY, SEPTEMBER 1, 1981

Afternoon sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk pro tem: Arnott, D.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

Pygiel, L. F., Actuarial Consultant, GBB Associates Limited

From the Ford Motor Company of Canada Limited:

Caron, P. E., Manager, Treasury Operations, Finance Office

Carter, J. M., Manager, Personnel Services, Industrial Relations
Office

King, J. S., Manager, Insurance and Benefits, Finance Office

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Tuesday, September 1, 1981

The committee resumed at 2:05 p.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: We have with us Ford of Canada. Exhibit 92 is before us if you care to refer to it.

Appearing before us are Mr. P. E. Caron, manager, treasury operations, finance office; Mr. J. M. Carter, manager, personnel services, industrial relations office; Mr. J. S. King, manager, insurance and benefits, finance office; and Mr. L. F. Pygiel, FSA, FCIA, actuarial consultant, GBB Associates Limited.

Gentlemen, if you would care to come to the microphones you can then tackle the subject in any way you like. As I mentioned, we have your brief. We appreciate your sending it to us in advance. You may want to use that as a basis for discussion and do some review and leave yourselves exposed for questions.

Mr. Caron: Thank you, Mr. Chairman. We certainly appreciate the opportunity to be here today. I am Paul Caron. Mr. Carter is at the far end. Mr. King and Mr. Pygiel are to my right.

Maybe before I begin I should draw attention to one little typographical mistake in our presentation. On page two we made a reference in the very bottom line to page 143 of volume two of the report of the royal commission. The reference to page 143 is not correct and it should be changed to read page 123. We apologize for this problem.

Interjection.

Mr. Caron: Something like that, or I couldn't print my thinking. I am not quite sure how it happened.

Maybe I could just summarize, if that would be all right. Ford is very pleased to have this chance to present our views concerning regulation 212 of the Pension Benefits Act of Ontario. Although the royal commission into pensions didn't specifically deal with this regulation in its recommendations, we believe the present regulation should be changed, and we think it should be changed effective with the 1981 calendar year.

The change we are recommending is to provide sponsors--that is, the employers--the flexibility to utilize actuarial gains in the plan to offset either current service costs or past service costs or both, obviously without reducing the security of the workers and pensioners' future benefits.

Mr. Peterson: (Inaudible)

Mr. Caron: We will come to that on page three. If you go to page three of our presentation we cite what it says now.

Mr. Peterson: All right. (Inaudible) presentation here.

Mr. Caron: On page three, regulation 212 presently reads, "Where the report of a person authorized by section 5"--and that is basically the actuary--"discloses a gain under the plan, the amount of the gain may be applied to reduce any future payments for current service or, subject to subsection 5, to reduce the outstanding balance of any initial unfunded liability or experience deficiency."

What we are proposing, what we would like to see, is a list of alternative ways in which a gain may be applied, expanded to also permit gains to be used to reduce the past service contribution requirement, which is also called special payments in the report. These are the payments that are necessary to amortize whatever the balance is of the unfunded liability amount.

2:10 p.m.

Mr. Peterson: We can see that actuarial gain legislated into an enforced index program of some type or other.

Mr. Caron: That is always a possibility. Our particular pension plan is a negotiated plan. It is a defined benefit plan in which the company and the union reach a mutually satisfactory agreement on what the future benefits are going to be and the company is, from that point onwards, responsible to fund those benefits.

Mr. Peterson: What about past service, present retirees?

Mr. Caron: In our particular case the bargaining unit for the unionized people is very concerned for and aware of the problems of the people who have retired in recent years--as the company obviously is too. In fact, we took a look at what has happened in our plant over the last 10 years.

Our plan for the unionized people in its essentials is fairly straightforward. When a person retires, his pension amount is a flat dollar amount per month multiplied times his years of service.

Mr. Peterson: What is that flat dollar amount?

Mr. Caron: Right now it's around \$17 or \$18; it would depend on their particular salary range when they retired. In fact, depending upon when the person retires during the current contract period, that amount will also vary; the later he retires, obviously the greater the starting amount is.

We took a look at a typical retiree who retired in 1971. The flat benefit amount then was between \$7 and \$8. It has been upgraded from time to time due to negotiations between the company and the union. At the present time, for a person who retired in 1971 at a flat rate of say \$7.50 per year per month, that amount

has been upgraded to somewhere in the level of \$13 or \$14.

Mr. Peterson: When you compare that with, say, the CPI or the cost of living index over that 10-year period, what percentage of that have you made up through your ad hoc gains?

Mr. Caron: The ad hoc gains have represented somewhere around three quarters or so of the CPI increase. If we also look at the same period of time at our particular plans, investment gains or let's say gains under the plan in the context that we are talking about in our recommendation, they haven't been sufficient to meet that kind of an upgrading. I think they have fallen short by two or three percentage points. We did not calculate it out precisely, but it serves to illustrate the fact that investment gains may happen, they may not. You can't really be sure that is going to be a very satisfactory way to go.

Mr. Chairman: Mr. Caron, did you wish to proceed further with your submission and then have us come back on that with questions?

Mr. Caron: Sure, I would be happy to do that.

Mr. Chairman: Then we would hear everything you have to say instead of anticipating maybe what you are going to say.

Mr. Caron: We believe our proposal would have several advantages. First, it would improve the consistency of the way different pension plans are treated under the regulations. The current regulation allows gains to reduce the current service payments but not past service payments. This gives rise to inconsistent treatment in the following way.

Let's assume a hypothetical case where there are two pension plans, each of which earns gains. Let's say the actuary reports that gains have been earned of--let's pick the number--\$5 million in a given year. Let's further assume that both of these plans have annual pension fund payment requirements again that are calculated by the actuary to be \$10 million in this particular year, but one of the plan's costs happen to break down \$5 million each for past service and current service. The other plan is spread a different way: \$8 million for past service and \$2 million for current service.

The sponsor of the first plan could use the \$5-million gain that was discovered in his fund to offset the current service payment under the existing regulations. That would thereby reduce his cash funding outlay to the balance required, which is \$5 million.

The other plan sponsor could offset the \$2 million of current service costs that are within his cost structure, but he would not be able to use the balance of \$3 million of that gain to directly offset \$3 million of past service payments. That is not now allowed under the regulation.

The \$3 million of gains that is left over could be used to reduce, let us say, the principal amount of the existing unfunded

liability. That would have a much lesser impact on his cash flow during that year. It would have an impact of say \$300,000, to pick an average example.

As a result, you can see in the little table at the bottom of plan four, both pension plans had an annual payment requirement totalling \$10 million. This is on the little table at the bottom. Both plans required to pay in \$10 million according to the actuaries' calculation of costs.

Both plans disclosed a \$5-million gain, we assume. Pension plan A is able to make up the payment requirement of \$5 million of gain and \$5 million of cash contribution. Pension plan B is not quite so flexible. The only difference really has been the split as between current service and past service. Yet the required contribution from each sponsor is different according to the way the present regulations work out. We feel that, in so far as the gains were identical, the cash flow ramifications for each plan ought to be identical.

There is another problem as well. Under some funding methods as pointed out in the report of the royal commission, actuaries do not identify any unfunded liability, in which case all of the costs by definition are current service costs. Therefore, if you have a situation where there are two identical funds using different actuarial methods, one sponsor, the one with no reported unfunded liability, could offset potentially all of his required contribution in a given year if he achieved a large enough gain. But another plan that is using a different actuarial method could fully offset only the current service costs component of his total pension contribution requirement.

Another reason we think the suggestion we are making would be beneficial is that it would provide a greater consistency with the way advance payments are treated. If you look at section 5(a) of the regulations, they in effect give a fund sponsor the flexibility to establish a reserve to go towards offsetting past service payments in future years by in effect putting a voluntary extra payment into the plan. He could do this in a year, let us say, when the employer has surplus cash in his business or perhaps can contemplate that he may have a requirement for cash within the business in another two or three years but at present has more cash than is necessary for the business. It may well make sense for the employer to put the funds to their best use in such a case, which may be in the pension plan. The regulation 5(a) allows him to do that.

We think actuarial gains are similar to prepayments, because in both cases the fund has really achieved a growth of its assets beyond what the actuarial expectation would be. The sponsor has in effect wound up putting in more money than he really had to to meet what the actuary estimated should be put in.

In the case of a prepayment the extra contribution was at the discretion of the sponsor and so is the timing when he eventually elects to use that prepayment in lieu of past service contributions. The regulation provides it should be used within three years; so there is some limitation. We feel an actuarial

gain should be treated similarly to a voluntary prepayment. If that were done, the sponsor should have the flexibility to use gains to reduce past service payments.

2:20 p.m.

To the extent that the present regulation, because of its restriction against using gains to reduce the past service payments, in effect almost forces a sponsor to make what you could look at as an involuntary prepayment, this has the effect, which we would guess is unintended, of imposing a stricter funding requirement on a fund that has had a successful investment program compared to one that had a middling investment program and did not achieve gains in the plan.

Lastly, the recommendation we are making would allow fund sponsors somewhat more flexibility to make more significant year-to-year changes in their cash contributions for past service costs, if and when gains were recognized, as compared with the alternatives that are now available. To illustrate this, you could say that for each \$1 million of gains that are disclosed in a plan, past service contribution requirements for initial unfunded liabilities may be reduced by about \$100,000 a year. That is the effect of writing it off over 15 years, which is the statutory period.

Also, if there is a previous experience deficiency, this is required to be funded over five years. So if you reduce the principal amount of a previous experience deficiency by, say, the \$1 million of gains, the past service contribution requirement--that is, the annual payment--would be reduced by about \$250,000.

The approach we are recommending would allow the \$1 million of gain to be used as a reserve to reduce cash contributions by an amount ranging from zero all the way to \$1 million as an offset to both current and past service costs in any given year.

This all presumes that the sponsor has met all of the other funding requirements that are required by the law. Given that the sponsor is already meeting these requirements, it seems to us a sponsor ought to be able to have the flexibility to use actuarial gains that are disclosed within the plan to offset not only his current service payment requirements, but also his past service--the amortization payment requirement.

The end result of this is that the sponsor is in a somewhat improved position to manage his own cash flow requirements, to put in more in years when the business is generating surplus funds and to make use of gains in other years when the internal cash management requirements seem to indicate that.

That is basically a summary of our position, Mr. Chairman.

Mr. Chairman: Thank you, Mr. Caron, for the very interesting points you have made. Mr. Cureatz has a question he wishes to pursue.

Mr. Cureatz: Actually, it is a question of an in-house expert. Are there problems with this, or what does the commission say? Are you always fighting with them over this point?

Mr. Bentley: We never fight with them, Mr. Cureatz; we just turn them down.

I suppose it is a matter of philosophy. Unfortunately, as you know, we run into philosophical approaches to various things. One of the concerns the commission has had historically is that when there is an unfunded liability we like to see bucks going in with respect to the unfunded liability.

We have said historically if you have \$1 million of unfunded liability and you have an experience gain, we will permit you to use the gain to offset current service costs or to reduce the balance of the unfunded liability, but we will not permit you to escape from the special payments.

It is a philosophical approach, I guess; and Ford has consistently approached us on this matter and the commission has said, with respect to the special payments which relate to increases in benefits which are retroactive: "We want to see the bucks going in. We will permit you, if you have a \$1-million unfunded liability and a surplus, an actuarial gain of 200, 500, whatever it is, we will allow you to reduce that liability, but we won't permit you to escape the special payments for the balance of the period in which you were to amortize this unfunded liability."

I guess it comes down to a philosophical approach.

Mr. Mackenzie: Wells, can I ask a question on that point? Does that mean the block of unfunded liability that might be there could be paid off sooner than, say, the 15 years?

Mr. Bentley: Certainly. If they want to increase the special payments, this is entirely up to the company. The commission, though, has historically taken this position, and I think the position they have had to take has been based on a philosophy that prospectively--

Mr. Mackenzie: "You have been charged with a certain per-year requirement to pay, and you do not get out of that, even though you may use excess earnings to"--

Mr. Bentley: To reduce the unfunded--

Mr. Mackenzie: (Inaudible) effect of paying it off sooner.

Mr. Bentley: That is right.

Interjections.

Mr. Cureatz: I want to ask the representative--I cannot follow, I am sorry, the philosophical aspects. What is your response there?

It seemed to be getting a little technical, and I was having difficulty.

Mr. Caron: I am sorry. I guess it unavoidably does get a bit technical and, from a philosophical point of view, it appears to us that still requiring, let us say, the cash payment to go in for reducing the unfunded liability appears to have the impact of putting more net new money into the plan in the event that an actuarial gain occurs.

The assets of the plan will, in fact, be greater, will they not, if, let us say, investment earnings exceed the amount--

Mr. Bentley: But the converse can take place as well; and, since these benefits have been granted for service that has already been given, it seems to us a different position than benefits that will come up prospectively for service that will be earned by employment in the future. It seems to us there is a philosophical difference.

Mr. Caron: Yes, and we were sort of taking the different philosophical view that provided the fund in total was receiving the moneys that seemed to be required by the actuary that, on balance, the same results occurred.

Mr. Mackenzie: That has the net effect of reducing your future payments required.

Mr. Caron: In the year, yes.

Mr. McClellan: The employer's cost then for past service liability would be reduced by being able to take it out of the fund, in a nutshell.

Mr. Caron: Yes; an ability to sort of earmark the gains, but only if gains exist. But we are only talking about a situation with a defined benefit type of plan, not one where savings accumulate.

And we are only talking about a situation where the actuary's evaluation, which incidentally, in our program, is done every year; so we always have a fairly current perspective on how the plan is actually doing. In that case, yes, when the gain is disclosed we are looking for the flexibility to use that gain--not necessarily to use it, but to have the flexibility, when circumstances dictate that it may be beneficial from the point of view of the business, which indirectly benefits the economy and so on.

Mr. McClellan: Mr. Bentley's commission has been saying that when there is a past service enrichment, you ought to see new money in there from the employer or from wherever.

Mr. Bentley: That has been our historical approach, and we have not varied from that approach since we have been in business, 15, 16, 17 years ago.

2:30 p.m.

I might just point out one other thing. We have granted the right to an employer to make advance payments into a fund without allocating them as to current service or past service benefits, but we have set, again, a criteria which says: "You can do that. We are not asking you to allocate it now, but within three years you must make that determination as to whether that is to be used in the method in which it is to be used."

Although I will admit you are making a point, I think I could disagree with the point in that our philosophy has not been different. We have said, "You can make an advance payment if you so desire, and we will grant you up to three years in which to make a determination as to how you want to use it." But I do not think that varies, because this is an actual cash payment, whether it is \$100,000 or \$10 million or whatever the amount is. We have been fairly consistent in the treatment of this.

I know you can argue the point, but the commission has to be concerned with the fact there have been promises given for benefits that have been created retroactively. Therefore, we have to be a little cautious in the way in which we can treat the moneys which are supposedly allocated for those particular benefits.

Mr. Cureatz: But they will be met anyway. You are just going the one further step and being overly cautious.

Mr. Bentley: I suppose, when you are looking at the position of beneficiaries under the plan, you sometimes have to look, philosophically again, at the prospective position of those people, not just in a continuing plan but in the event that something happens. Now, plans have been known to be wound up, and we have this concern as well.

Mr. Peterson: I just have one supplementary. Is this a big problem or a little problem?

Mr. Bentley: It is a big problem to the people who request it.

Mr. Peterson: Do you get many requests?

Mr. Bentley: No.

Mr. Chairman: I suppose it is still a big problem because of the corporation it flows from. There may be some dialogue here. I am reading maybe a difference in opinion. You will note that Mr. Bentley does not say it is a conservative view now; he says it is a cautious view. I noticed that you have changed vocabulary.

Mr. Bentley: Working with these guys, how else can I say it?

Mr. Chairman: I surmise that there may be some perception of stubborn thinking. I do not know whether that is a correct assessment or not. But it might be helpful to get a little

dialogue on this particular point, if you gentlemen feel there is a legitimate point that you want to make.

Mr. Peterson: Go ahead. Attack Mr. Bentley.

Mr. Bentley: Could I make one more point before we end this?

If you will look at the correspondence that Ford has through either Leo Pygiel or directly to Mr. Holinski, we have not closed the door. What we did do was say: "We are awaiting the report of the Royal Commission on the Status of Pensions in Ontario. We have to deal with the recommendations of the royal commission."

We did not know, at the time we were discussing this with Ford, what the recommendations, if any, would be; as you will notice, they did not deal with this particular topic, but they dealt with the funding of flat benefit plans, which is the kind of plan you are talking about and which the Pension Commission of Ontario, along with the select committee, has to look at the prospective funding rules, that is, funding rules that may be the same or may change in the future, either relaxed or contracted.

We have had other representations, both to the pension commission and suggestions to the select committee, that we are going to have to look at that area. The door is not closed to Ford with respect to this or to any other plan, except that we have to look at the situation in its totality. I do not think the pension commission can do anything else except take a look at the situation in all of the aspects we have to be concerned about in the supervision and regulations of all private pension plans.

As you know, I did not close the door in our discussions. It was open. I appreciate that you have a concern. I think the select committee has to be aware you have a concern, and I am glad you brought it forward. As I am pointing out, it was principally in the past a philosophical difference between the commission and whoever made this representation to us.

Mr. King: I think the one concern we have had, if we do have an unfunded liability of, let us say, \$10 million or \$100 million--it does not really matter--is that in year one you have to meet one fifteenth of that obligation; in year two--I guess our point really is, if our fund has achieved a gain compared with somebody who has not, then we can really either offset current service or let it reduce the amortization payment or the unfunded which, in effect, has accelerated the funding of that initial unfunded liability that technically we are only required to fund.

Mr. Mackenzie: I would like the benefit of it now, instead of the second last or last year.

Mr. King: It is the flexibility you are really after, I guess, and you are saying that the money is in ahead of time. It is not as if you are trying to take the money out of the plan.

Mr. Bentley: I think you realize, Mr. King, that we fully understand the position you are taking, but I think up until

a couple of years ago the philosophical difference did exist between the commission historically in the treatment of these, and it is reflected in the regulations that we wrote quite a number of years ago.

Mr. Mackenzie: Maybe I am reading it wrong, and it was interesting that I could even begin to understand it, but is this not somehow the same kind of situation we had with the Hydro people, the Hydro Employees Association for Recognition of Total Service? It is a personal, individual case where there is a particular point or axe to grind.

Mr. Bentley: I would not say it is an axe-to-grind situation, but it is an approach to funding of private pension plans which I think--

Mr. Mackenzie: I think there is a little more to it.

Mr. Bentley: Yes, there is more to it than that.

Mr. Gillies: Mr. Chairman, I would say as a casual observer that it is a tie.

Mr. McClellan: What happens if the money is taken out of actuarial gains and put into the past service liability instead of new money going in from the employer? Then is there not a negative impact on the benefit structure of the plan? There is additional money--am I wrong here? There is additional--

Mr. Caron: Under a defined benefit plan, the company is more or less on the hook to fund whatever benefits it has promised to pay.

Mr. Chairman: I guess it is on the hook--not more or less; I guess it is. Mr. Bentley agrees with the delegation in this regard.

Mr. Pygiel: The one point we have to remember is that, under the Pension Benefit Act and its regulations, the act says every year you are supposed to make a current service cost and an amortization payment towards the unfunded liability, according to a set of rules.

You are making these payments according to the set of rules and, just because the pension fund is going to earn \$20 million, \$30 million, \$40 million or \$50 million more than you have to put in, it seems strange to me that the pension commission should go up to you and say, "You must use that \$40 million or \$50 million to reduce the unfunded liability and speed up your payments."

In the first place, what they are telling you is that you have to make this amortization payment. After you make it, they are telling you further that not only do you have to make the amortization payment but also you have to speed up payment of the amortization payment.

Mr. Chairman: You might interpret that as, instead of rewarding success, penalizing it.

Mr. Pygiel: Exactly. That is exactly what is happening.

Mr. Cureatz: Contrary to the free enterprise system?

Mr. Gillies: You are coming from behind now.

Mr. Bentley: Might I point out that you have the representatives of the pension commission before you tomorrow, and you might query them on this point.

Again, as far as I am concerned, it has to come back to the philosophical approach. You have to separate in your mind, and this is what I think happened originally, by my reading of everything that took place in the development of the regulations under the Pension Benefits Act, that they did treat prospective service benefits differently from those that were granted retroactively.

They felt there had to be rules which caused, I suppose you could call it new money, to flow in to look after those things that you granted retroactively, whether this is done through negotiation or unilaterally.

Employees are now led to believe that the level of benefits they are going to get for all their past service would relate to the \$15, \$16, \$17 and \$18 per month per year of service or whatever the benefit provides for them.

2:40 p.m.

Again, I guess it comes down to the approach of the commission when they wrote the regulation. It said philosophically these should be treated--if you will pardon the whistling, I have a loose tooth in the front, and I am supposed to see a dentist on Friday. It is going to fall out before I get there.

Mr. Chairman: We all have to face that age.

Mr. Bentley: I think when we changed the regulation to permit the prepayment we recognized that maybe we were going a little bit too far. We could have said: "Okay, you can make a prepayment against an unfunded liability, or you can make a prepayment against a special payment. You must identify it at the beginning." But because I suppose we were tempted to make the rules a little bit more flexible, even when we permitted a cash prepayment to be made we permitted a period of time in which the company could determine how they wished to use it.

You can have an actuarial gain and it can last this year and next year and the year after; but it does not necessarily last forever. We will impose a rule which if you happen to come up with the next (inaudible) as many plans did in 1974, 1975 and 1976--

Mr. Pygiel: Nobody is arguing that point. The point is that you have got a set of rules that say if you have an experience deficiency you fund it over five years. No one argues that you should not do that. If you have an initial unfunded

liability, you fund it over 15 years. But if I may make one suggestion, I don't think--and correct me if I am wrong--that back in 1965 very many people who were drafting the legislation thought there would be these large gains available now, which some plan sponsors would like to have the flexibility to use for their own cash requirements.

Mr. Chairman: Like government.

Mr. Bentley: It is a very hard thing to go back to 1964 and 1965. But I do know the philosophy was established at that time that this should be the approach of the commission. There has not been before us in the last 17 or 18 years this number of requests to permit the additional flexibility that you are asking.

I am not saying you are wrong. I am just defending the position the commission has taken. There hasn't been the number of requests that anyone would have anticipated if the rules were such that they could be considered to be totally inflexible, totally unworkable. They have worked, with the exception of some situations.

Mr. King: I think part of that might be the fact that we do annual valuations.

Mr. Bentley: A great number of plans have been doing annual valuations for the last seven, eight or nine years.

Mr. King: But I think the first couple of gains got by us before we twigged to the impact.

Mr. Bentley: That is entirely possible. Again, though, we have not closed the door. The royal commission did not deal with the matter at all, but there are other ramifications involved in the funding of pension plans that the pension commission has to look at and has to be concerned about. This is only one part of the whole thing.

Mr. Chairman: Mr. Bentley, I appreciate you haven't closed the door, and I am trying to open it a little bit. You have been talking about the philosophy of the royal commission report which recommended a PURS program, the moneys to be invested in the private sector as opposed to government because of some very extravagant language that occurred about government use of Canada pension plan moneys--and I am not tempting Mr. Peterson to respond.

If the royal commission's philosophy was to make money available through pension plans for the private sector, would that impact on the philosophy of a company like Ford, utilizing pension moneys in the private sector? I am thinking of making more money available to the private sector in this case here.

Mr. Caron: Do you mean on the private employer himself?

Mr. Chairman: Private employer, yes--as part of the private sector. Is there some thread of philosophy that seems to run through that commission thinking and what you are saying, or am I--?

Mr. Caron: Yes. I think philosophically there is a point to be made there. With the moneys we are talking about here, actually we are not looking at a physical withdrawal of money out of the plan; that doesn't take place, and that is not being contemplated here. It is really a substitution of excess money that has been earned in the plan for new money from the sponsor. So to the extent that flexibility is there then there is more flexibility for the sponsor to utilize the moneys internally in the business.

Mr. Chairman: And rather than put them into a--?

Mr. Caron: Really, that means he can either undertake investments that wouldn't have been possible or, if he is going to proceed with those investments in any event, then he has to obtain the cash funding from some other source; so he has to turn to the banks, the investment industry generally, all the various sources of private capital.

Mr. Chairman: That is what I had in mind, that you had more flexibility utilizing internal financing--

Mr. Caron: If there is more flexibility there, then I think you can argue that there is going to be an overall benefit of efficiency to the economy.

Mr. Chairman: I was just trying to get the philosophical argument; that was all. Mr. Cousens, you had a question?

Mr. Cousens: I pass.

Mr. Mackenzie: I recognize it is a fine benefit plan and that certainly is a little different ball game, but I am wondering if there is some conflict there also with a worker's right to have some say in what might be done with excess benefits that may accrue in a plan like that. I wonder if they might not have some say in whether you use this for purposes other than earlier funding of the unfunded liabilities.

Mr. Caron: That is a very good question and a point that would have to be a good subject for debate between the representatives of the union and management.

Mr. Mackenzie: We went through the argument of deferred wages, regardless of the loans.

Mr. Chairman: Yes. That occurred to me some time ago, that the deferred wage concept was maybe a little bit varied when it came to this type of plan.

Mr. Mackenzie: I recognize defined benefit is a little different, but I still have some question in my mind as to whether there is a locked-in right here of some participation from those the plan was negotiated for.

Mr. Caron: The way a defined benefit plan is structured nowadays that right doesn't automatically follow, because the

entire obligation falls on the sponsor.

Mr. Mackenzie: Philosophically, I am not too sure I entirely agree with that either, but I understand.

Mr. Caron: (inaudible) sponsor left holding the bag and you know how it is. It is a philosophy that has, I guess, grown up through the years and one that has become fairly entrenched in the pension industry and in most relationships between the employees and the company sponsors as well.

Mr. Mackenzie: The second question was really one I wanted to direct to Wells, but it deals with what we have been discussing here. Have we had any experience of companies paying in advance during the 15 years, their unfunded--?

Mr. Bentley: We have had some experience.

Mr. Mackenzie: Has it been minor?

Mr. Bentley: Well, it depends. The number of companies that have taken advantage of the current regulations have been very few, but the amounts of money involved have not been minor.

Mr. Peterson: Have there been cases of a company having a big profit year and saying, "Holy smoke, we had better store up some peanuts"?

2:50 p.m.

Mr. Bentley: I would not even hazard a guess as to why they are doing it. I know they have come forward with additional funds into the plan and they have a period of time in which to--

Mr. Mackenzie: Over and above what they were--?

Mr. Bentley: That's right, over and above what they are required to do. They do this in a number of situations. We have had them advance the special payments by a considerable amount just by earmarking. They say, "Look, we are going to reduce the unfunded liability by a considerable amount without even utilizing the three-year period we grant under the regulations." That is only to permit them to have the opportunity to make some judgement as things unfold for them, but yet to set a time limit as to how long the commission is prepared to grant as far as time is concerned in order to make a determination. Some do it immediately.

So the regulation we have makes it possible for flexibility, but quite a number of employers have not utilized it. They have just come in and said, "Look, we have some extra money and so we are putting it in." That is their decision, not ours.

Mr. Williams: You say you are leaving the door open.

Mr. Chairman: Yes. He said the door was still open, and I guess I put my foot in it.

Mr. McClellan: It would not be the first time.

Mr. Chairman: You lose more feet that way.

Mr. Williams: I just don't know what options you have left to examine or look at that they haven't already explored there.

The pension commission is coming in tomorrow (inaudible) things we can discuss with them, although, as has been mentioned earlier, I don't know that it's the function of this committee to deal with individual case situations. I think it would be very difficult to put us in that situation.

It's something I think in the overall we might want to look at when we are addressing some of the major recommendations to see whether this could be effected by one of those recommendations. I don't know if we can deal with the specific individual complaint at this time--not that it doesn't concern us, but--

Mr. Caron: Something that occurs to me is that if the regulations concern the adequacy of funding, and if we are going to receive a general overview, it may well be there are sharper methods or sharper tools to achieve sufficient funding.

It occurs to us in our particular plan that we would certainly have a sounder-funded program and it becomes obviously more soundly funded--or it will be excessively soundly funded, depending on your point of view--by the application of the current regulation. So perhaps it's a bit of a blunt instrument that our well-funded plan is being forced to be even more well-funded.

Also, if there is a going to be a general revamping of the regulations stemming from the review of the royal commission report, there might be a possible way of defining the conditions under which what they are looking for might be permissible.

Mr. Bentley: That is entirely possible. As you know, in the royal commission report they did specifically suggest the commission look at funding of flat benefit plans. That is something the pension commission will have to be concerned about and it is something we are looking at currently.

How the request you presented to us a year or so ago will be dealt with in the final approach, I could not even begin to guess right at this moment. But I can assure you--you know this is true--that the pension commission is fully aware of your concerns except that, at the time we had to deal with it, we had to await the report of the royal commission to see if they had dealt specifically with it, or dealt with the funding of all pension plans in general terms or however they dealt with the funding of pension plans.

Based on that, certainly we are looking at the whole of the program. How your request will fit in, at this particular moment it is difficult for me to say.

Mr. Caron: Would there be any merit from the commission's point of view if we were to appear before it in some

way, or is our case fairly well explained already?

Mr. Bentley: I think your case is fairly well explained. I think the pension commission is aware of your area of concern and the reasons for it. I think you are aware that this is true.

You also know if we have any need or want additional information we would have no hesitation in going either to you or through Mr. Pygiel to you for any additional information the commission may want in order to look at what may be a reasonable approach to funding of all kinds of pension plans, including flat benefit plans. That is about the best I can tell you at the moment.

Mr. Chairman: Always remembering that the price of liberty is eternal vigilance.

Mr. Peterson, you had a question.

Mr. Peterson: Did you make this submission to the royal commission?

Mr. Caron: We did not.

Mr. Peterson: Why not?

Mr. Caron: I guess that was at a period of time that was before our active concern arose.

Mr. Peterson: What is the size of your pension plan?

Mr. Caron: On a book value basis, close to \$500 million.

Mr. Peterson: What is the dollar size of the problem you were talking about before?

Mr. Caron: We have not calculated the numbers precisely this year, but it could be a cash contribution difference of in the neighbourhood of between \$10 million and \$20 million.

Mr. Peterson: So last year was an experience gain or gain of--

Mr. Caron: Yes. The actuarial report covering 1980 is just in the finalization stages, and it does indicate a substantial gain which, under the present regulations, would require a certain cash contribution. Under our proposal it could require a cash contribution that would be diminished by--

Mr. Peterson: So that would have saved you \$10 million or \$20 million last year.

Mr. Caron: I am talking about this coming year, 1981.

Mr. Peterson: Sorry, 1981; you could save \$10 million or \$20 million.

Mr. Caron: I am estimating, but the pretax--in that order of magnitude. This is not a saving in profit or loss, mind

you; it is a cash flow condition. The profit or loss we report on our bookkeeping won't be altered significantly because, when you are talking about accounting principles, it is not always the same as cash. It would have the impact of requiring us to borrow fewer cash funds if we are in a position of borrowing the money to run the business.

Mr. Peterson: From a tax point of view, what is the difference from an earnings point of view? That is a deductible expense.

Mr. Caron: We really have three different types of books. You have cash books, which is what we are really talking about here. You also have corporate, profit and loss financial statement reporting.

The rule we follow there, and it is a rule that has been recommended to us by our accountants, the outside accountants who audit our books, is that the expense we recognize on our books for any given year should be what the actuary's statement of our costs are. That may differ from the actual cash contribution because of precisely the factors we are talking about here.

3 p.m.

For example, take a situation say five years ago. If we had made a prepayment, if we had put extra cash into the pension plan--say we put an extra \$5 million into the pension fund--we would not have reported that as extra expense in that year on our P and L statement.

Mr. Peterson: Why not?

Mr. Caron: Because--

Mr. Peterson: Written off that year.

Mr. Caron: --it was, in fact, the cash flow went out that year, and it probably would have been treated as an expense from an income tax point of view.

Mr. Peterson: That is what I am talking about.

Mr. Caron: But from the point of view of company bookkeeping, a profit and loss statement, it is construed as buying a deferred expense; so it is an asset.

Mr. Peterson: I am talking about it from a tax point of view now.

Mr. Caron: Okay.

Mr. Peterson: Just so I understand it. I asked Mr. Bentley this question earlier. I assume the precontribution; in other words, it would be when a company had an extraordinarily profitable year and says: "Holy smokes, let us store up some chestnuts, because this is all deductible from a tax point of view." It is deductible and costs you 50 cents on the dollar.

Right?

Mr. Caron: That is one good reason, up to a limit. The Department of National Revenue will not allow you to go beyond certain limits--

Mr. Peterson: On a precontribution.

Mr. Caron: (inaudible) of pension contributions.

Mr. Peterson: But on a contribution of the kind you are talking about--I may be wrong, but I want to make sure I understand this. Let us say you were called for an additional \$10-million contribution because you are caught on the horns of this--let us say you are--to make up the deficiency. From an income tax point of view, that is fully write-offable. That would cost you 50 cents.

Mr. Caron: Yes, I think I understand you correctly.

Mr. Peterson: I understand the practical argument you are using.

Mr. Caron: Okay.

Mr. Peterson: Do you figure--over the past few years--and I assume it is in the past two or three years that you have experienced these actuarial gains in the fund.

Mr. Caron: They have only been significant in the last couple of years.

Mr. Peterson: In your best judgement, what is the total cost to Ford in terms of cash flow?

Mr. Caron: Of the regulations, the way they are?

Mr. Peterson: Yes.

Mr. Caron: Taking last year and this year, probably in the area of \$30 million less that is in the business than otherwise might be. It is a lot of dough.

Mr. Chairman: That is a very interesting point you have made, and I think you have made it forcefully. I am also sure the committee will have some future discussions on it as we complete our overall deliberations.

Gentlemen, we have another person who is scheduled to appear this afternoon--Mr. Ross Rigney. Is Mr. Rigney here? I was checking the correspondence from the clerk, and the clerk estimated that he would be coming on about 3:15 p.m. In view of the time being 3:05 p.m., it may be that he will be along in another 10 minutes. It is an unusual experience for us to be running ahead of schedule.

Mr. Peterson: There is no brief from Mr. Rigney that I am aware of.

Mr. Chairman: No. There is not.

Mr. Cousens: Shall we recess then?

Mr. Peterson: We have a schedule for the rest of the week somewhere, do we not? I have kind of lost--

Mr. Chairman: Tomorrow we have the Pension Commission of Ontario appearing at 10 o'clock and again at 2 p.m.; so that is a full day of the pension commission.

On Thursday, at 10 a.m., we have Professor James Pesando; also in the morning we have the Coalition for Pension Reform. At 2 p.m. on Thursday we have the Canadian Union of Public Employees (Ontario Division) appearing. Later that afternoon, we have the Investment Dealers' Association.

Is there any discussion? Otherwise, we can recess for five minutes.

Mr. Williams: Has the date been set for our meeting to go over a draft report?

Mr. Chairman: Yes.

Mr. Williams: Did you discuss that earlier?

Mr. Chairman: Yes, we did. We have allocated Monday, September 21, at 10 a.m. We will use that day for the review of the draft, and we will be ready for them.

Mr. Peterson: Any chance that draft will be in our hands ahead of time?

Mr. Chairman: I doubt it very much, but certainly we will have it for that day. I hope, depending on the depth you want to go into it, we may be able to finalize some of those areas that we discussed earlier that are not at this stage susceptible to as many conflicts--

Mr. Mackenzie: Other than that schedule of yours, you haven't made any arrangements in the event that we don't finish it and reach agreement on it, have you, Mr. Chairman? We are playing it by ear until September 21.

Mr. Chairman: Yes. We have, as you know, a "best Mondays" response to the members. I thought we would pick the best one, which is September 21, and (inaudible), if that is agreeable.

I would ask the members not to evaporate lest we not have a quorum at 3:15, which is five minutes hence.

Mr. Peterson: While we are shooting the breeze, Mr. Chairman, have you attended discussions with the House leaders about regrouping in January and February? Is that your tentative plan?

Mr. Chairman: Yes. The plan would be for that. In answer to your question, no, I have not discussed next year's schedule with the House leaders, but certainly scheduling may be necessary.

Mr. Peterson: Can select committees sit concurrent with the House? Is that done?

Mr. Chairman: No, it's not. It's just not workable.

Mr. Mackenzie: You might sneak the odd day or two, but on any more of a sustained basis, unless your schedule is--

Mr. Chairman: I think they have been known to sit to complete reports, that's all.

Mr. Peterson: That might be the answer.

Mr. McClellan: I think it's easier (inaudible).

Mr. Cousens: (Inaudible) on September 21 is to have some discussion on just some of the--if we are doing the interim report, we could lay out a few plans as to what we want to do in the next run after the House recesses. Is that your plan, Mr. Chairman?

Mr. Chairman: I am open to suggestions. We have a great number of people who wish to appear before the committee. I don't think we should deny them that opportunity, and I don't want to see the committee in a position where it's prejudging or concluding in advance of hearing evidence. So I think we have to remain open (inaudible) until the problem is investigated very thoroughly.

Mr. Cousens: Very good.

Mr. Chairman: That, of course, is not to say we shouldn't act expeditiously. I don't think that is in the interest of the people of Ontario.

Mr. Cousens: That is a foregone conclusion with all of us.

The committee recessed at 3:10 p.m. and resumed at 3:19 p.m.

Mr. Chairman: I call the committee to order.

We have followed up with the commitment of Mr. Ross Rigney, who wished to appear this afternoon. I am now advised that he was called out of town on an urgent matter. Unfortunately, we weren't advised of that until we inquired.

That will conclude today's sitting, unless you have something else.

The committee adjourned at 3:20 p.m.

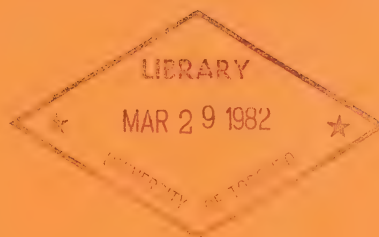
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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

WEDNESDAY, SEPTEMBER 2, 1981

Morning sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Ridgell, J. K. (Huron-Middlesex L)

Clerk pro tem: Arnott, D.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Pensions Commission of Ontario:

Priestner, E.B., Vice-President Operations, Westinghouse Canada Inc.

Brown, M.D.R., President, Eckler, Brown, Segal & Company Limited

Milling, Gordon, Labour Economist

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, September 2, 1981

The committee met at 10:07 a.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I see a quorum here.

We have received since our last day exhibit 89, a submission dated August 1981, from the Ontario Coalition for Pension Reform; exhibit 90, a submission dated September 1, 1981, from Edward Lawrence Archer, MA, CLU, pension economist; exhibit 91, a submission from Housser and Co. Limited; exhibit 92, a submission dated September 1, 1981, from Ford Motor Company of Canada Limited; exhibit 93, a submission from Jim Gordon, MPP; exhibit 94, Committee Research Officer, Views on the Royal Commission's Recommendations; exhibit 95, a memorandum dated September 1981, from the Pension Commission of Ontario; and exhibit 96, Committee Research Officer, Guaranteed Annual Income.

We are indeed fortunate this morning in having, in addition to exhibit 95, the memorandum from the Pension Commission of Ontario, the Pension Commission of Ontario itself. I am going to identify the members from the commission who are here: Mr. E. B. Priestner, Mr. M. D. R. Brown, and Mr. Gordon Milling.

I gather, gentlemen, that your preferred approach would be to work from your submission, and then after each part we could jump in and ask questions as we go along. Is that correct?

Mr. Priestner: Yes, sir.

Mr. Chairman: Okay. Then we are in your hands. I hope we can get through the first part and refrain from asking questions even in anticipation of its completion. So away you go.

Mr. Priestner: Thank you very much, Mr. Taylor, members of the committee. We appreciate your invitation to appear before this committee to comment on certain aspects of the report of the royal commission. To flesh out some of the chairman's remarks, first of all, we are not the whole commission here; we are a subcommittee of a nine-member body that has been delegated to boil down the royal commission's report and present its views to our commission as a whole. We have done this over several sessions, so the report that you have and the comments that I will be making represent the views of the entire commission.

There are nine people on that commission, and they come from different walks of life; they have different views on everything, and, as you can appreciate, it is sometimes difficult to get a complete consensus. We think we have zeroed in on what the commission feels to be the important issues and our views on what might be done about those issues.

10:10 a.m.

Mr. Chairman: So you are three of nine--

Mr. Priestner: We are three of nine.

Mr. Chairman: --but manifesting the views of the commission. Just to carry forward that thought, we are a committee of the legislature composed of members of all political parties, and we too cannot agree on everything. In a way we are a sort of mini-legislative assembly here.

Mr. Priestner: I think that is representative of our group. I am Ted Priestner. The job for which I am paid is vice-president of operations of Westinghouse Canada. Gordon Milling is a labour economist and David Brown is president of a consulting actuarial company. As you can see, we are a bit of a mix within the commission itself.

Mr. Peterson: One Liberal, one Conservative and one NDP. Is that it?

Mr. Priestner: We haven't asked that question except in confession.

Mr. Brandt: We will be able to tell you after you speak.

Mr. Priestner: First of all, a word about the pension commission itself. I may be repeating knowledge that you already have, but the pension commission was established in 1963 under the authority of section 2 of the Pension Benefits Act. The commission was and continues to be composed, as I said, of not fewer than five or more than nine. We have a full complement of nine at the present time.

Its principal functions are threefold: to promote the establishment, extension, improvement and solvency of pensions in Ontario; to accept for registration all plans required to be registered, and to administer and enforce the Pension Benefits Act.

Over the past 18 years the pension commission has made frequent recommendations to government in respect of changes that were considered necessary to strengthen pension plans, to afford more adequate protection to the rights of plan members and to achieve a maximum degree of uniformity of pension legislation between Ontario and other jurisdictions.

Mr. Peterson: Can I ask a question on a point you made a minute ago? You administer about 7,700 pension plans.

Mr. Priestner: Yes, sir.

Mr. Peterson: How close are you, the pension commissioners, to--that's a big inventory of things to handle.

Mr. Priestner: Yes.

Mr. Peterson: How intimately do you as commissioners get involved as opposed to staff people? Do they flag problems for you, or is it your responsibility to keep asking questions about ABC plan or whatever?

Mr. Priestner: I think there are two answers to that question. From my perspective when I came on the commission, not knowing how it worked and so on, I was amazed at the detail the commission had to get involved in. That was my first and continuing impression of it. We have certain rules that cases of a certain type must come before the commission to be ruled on, and then we rely on the staff to flag other issues where the guidelines are not so clear-cut. I would think that on average we meet twice a month.

Mr. Peterson: For a full day?

Mr. Priestner: I would say three quarters of a day is typical. There is always somebody running off at two o'clock, but I would say we probably deal with 15 to 20 individual cases at each of those meetings. When you add that all up that's not a lot compared to 7,700. But most of the 7,700 plans that are registered are stagnant in that they are not changing all the time. Once they are registered and once they are performing their original filings, there is really no need to look at them on an individual basis until they come on side.

Mr. Peterson: And you get paid peanuts for giving up two days a month for that?

Mr. Priestner: Yes, sir. That's Ted Priestner's view of it. I'm not sure it's the commission's view.

Mr. Williams: Just a supplementary, Mr. Priestner: In the last sentence on the first page you state that one of the functions is to accept for registration all plans required to be registered.

Mr. Priestner: Yes.

Mr. Williams: Are there situations where there are plans that do not have to be registered under the act?

Mr. Priestner: Yes. I will have to call on Wells for a more precise definition, but there are plans operating in Ontario that are under federal jurisdiction, for example. There are plans that are exempted by law, some of them in the public service.

Mr. Williams: I think we touched on those the first time out.

Mr. Priestner: Basically, if an employer sponsors a pension plan, it must be registered with the commission.

Mr. Williams: Do you want to deal with that now or come back to it to get into specifics. I think we touched on three or four of the plans that did not have to be registered at the beginning.

Mr. Chairman: Go ahead, Mr. Williams.

Mr. Williams: Is there anything further that can be given in the way of elaborating on that?

Mr. Bentley: Just the other group, where the employee pays the whole of the contribution. Mr. Milling can enlarge on that considerably because he has had quite a bit of experience, if you want to know more detail on this.

Mr. Williams: That would be more of a historical situation, not those plans that did not have to be registered. They are not the type that are coming on stream.

Mr. Milling: The term "main category" is probably misleading. We are, I suppose, talking of three or four plans that were won by large unions for their members mainly in the printing trades and in some of the building trades. These plans go back many years, some of them before the First World War, I think. These are plans to which the workers themselves make the contributions. There are no contributions made from the workers' employers.

Mr. Williams: I think there were two that were mentioned to us at the beginning by yourself, Mr. Bentley.

Mr. Milling: There would likely be two left; one or two of the larger plans have been wound up since.

Mr. Williams: It was mentioned there were some other types of plans as well which normally would not have to be registered, the type which are no longer being presented by employers to their employees. It is my understanding that today all plans are being registered.

Mr. Milling: Yes, that is true. I do not know of any new plans coming on stream now or in the last 15 years or more in Ontario which have not had to be registered either with the Pension Commission of Ontario or the federal superintendent of insurance.

Mr. Priestner: There is one other point about the commission. The chairman of the pension commission is a member of the Canadian Association of Pension Supervisory Authorities, or CAPSA, whose membership consists of the senior pension representative designated by the several jurisdictions. Members of CAPSA at present are from Alberta, Saskatchewan, Manitoba, Ontario, Quebec, Nova Scotia and the federal government. The principal functions of CAPSA are to evaluate existing legislation on a continuing basis, to make recommendations for amendment and generally to promote uniformity of approach to the regulation of private pension plans. We will get into that as a key issue a little later on.

Mr. Chairman: Do you mean as to whether or not that is successful?

Mr. Priestner: Yes, and what might be done to make it more successful than it has been up to now.

Mr. Chairman: Mr. Peterson asked about your work load, I suppose, in the intimacy contact with individual files. I guess your larger job in a way is contact with other jurisdictions in terms of being familiar with their legislation and how to ensure achievement of some uniformity. Am I correct in that observation?

Mr. Priestner: That is very correct. It is an essential point to the position the commission has taken.

Mr. Peterson: Have you ever had a disaster, say, a file that snuck away on you that somebody did not flag, and when you looked at it again you said, "My God, there is nothing there to pay for the benefits?" Or does the system work pretty well from a regulatory point of view, just from catching those problems?

10:20 a.m.

Mr. Priestner: My experience is more limited than Gordon's. My experience says it works amazingly well. It works better in actuality than it probably does on paper. Gordon, you go back longer in your commission association. Do you recall a major disaster of that type?

Mr. Milling: No, I don't recall any disasters of that magnitude. There have been cases of plans that were rather seriously underfunded. Most of them that I can recall were meeting the requirements of the legislation. There have been some situations--and I would think Mr. Bentley could answer in detail better than I could--where the funding was, relatively speaking, pretty shaky. The more serious ones have been where the required contributions have not been made for the last year or year and a half. The place may go bankrupt before this particular deficiency is recognized.

I think there are some recommendations in the the royal commission report that have to do with the timing of contributions so that it might be possible to spot some of these problems before they become very serious or catastrophic.

Mr. Peterson: But they weren't major failures of the regulatory system or function, in your judgement? They weren't major failures of the regulatory function of the commission?

Mr. Milling: No, they wouldn't be major failures from the point of view of the Pension Benefits Act and its general purpose. They might have had a major impact on the benefits of some particular employees in those situations, of course.

Mr. Peterson: Well, if there are any failures you want to admit to, you have a chance right now.

Mr. Chairman: No confessions, please.

Mr. Bentley: No, I agree. There has not been any major situation.

Mr. Chairman: Nothing to confess nor repent.

Mr. Bentley: To repent, yes; not to confess.

Mr. Priestner: I think if you turned the question around and asked him if he is perfect, he will admit no to that.

Mr. Peterson: Thank you.

Mr. Chairman: I see Mr. Bentley is going to enjoy the horns of a dilemma today.

Mr. Peterson: We are going to do our best to put him there, too.

Mr. Priestner: It was not our choice that you sat on the other side of the table.

I am not going to go into the details of the resumes of the various members of the commission; they are in your report. As you can see, they are from a wide variety of the private sector. All of them have an interest in pensions but they come from different points of view on the subject.

This submission that we are dealing with today concentrates on only four areas of pension planning and regulation. They are all of major concern to the royal commission and they are all of major concern to the pension commission. We think these are the issues that must be addressed most urgently if employment pensions are to survive as significant providers of retirement income. The four areas are eligibility, vesting and portability, as one; inflation; funding and solvency; and uniformity of legislation--the point that was raised before.

In this discussion it is assumed that one object of public policy continues to be the encouragement of private pension plans and individual retirement savings plans. Whether that means an expanded or diminished role for public or private plans is a question that goes beyond the terms of reference of the pension commission. However, it is clear to us that any of the broad policy options currently under study by various governments in Canada, including the course of action favoured by the royal commission, would accommodate or even require the existence of a vigorous and effective system of private pensions.

Consequently, we agree with the royal commission that the Pension Benefits Act and similar legislation in other jurisdictions has a vital function to perform in whatever pension structure may emerge as a result of your deliberations and subsequent action by the Legislature.

Turning to the issues, first to eligibility, vesting and portability, pension coverage, especially in the private sector, is far from complete, whether the percentage is 40 per cent, 50 per cent or 80 per cent. As the royal commission points out, however, coverage statistics are of little use in telling us how many employees are likely to receive any retirement income from the plans to which they belong, or whether the amounts they will receive are likely to bear any reasonable relationship to their

earnings at the time of retirement. Changing employment patterns have made for an increasing degree of labour mobility but the majority of pension plans are still designed to meet the needs of a person who works most of his or her lifetime for the same employer and in a full-time capacity.

The gap between promise and performance in the typical pension plan is aggravated by inflation, which erodes and ultimately destroys the value of any fixed benefit such as a vested pension. But before seeking remedies for that problem, it is necessary that there be a vested benefit and that its amount should represent a fair return to the employee for his or her years as a member of the plan. Further, it is desirable that workers who move from job to job and accrue pension benefits under a number of plans be given the greatest possible discretion in the management of their pension credits, provided that the funds are preserved to provide retirement income.

Vesting under the Pension Benefits Act, as you know, must occur once the plan member has attained age 45 and completed 10 years of continuous service or plan membership. At the same time, any employee contributions are locked in as part of the cost of the deferred benefit, subject to the rights of the terminating employee--if the plan so provides--to withdraw in cash as much as 25 per cent of the commuted value of the benefit. Plans are permitted to make provision for a transfer of employee's pension benefit credits to another employer's pension plan or a registered retirement savings plan, subject in either case to the locking-in requirements of the Act; but few plans include such a provision.

Mr. Peterson: What you are saying is mandatory portability. Is that what you are saying?

Mr. Priestner: I beg your pardon?

Mr. Peterson: Are you saying legislate portability in all cases? Is that what that means?

Mr. Priestner: We are coming to that. This is background.

Mr. Peterson: That sentence means that.

Mr. Priestner: It suggests that there ought to be more portability, yes.

The provisions we have described above are essentially unchanged from those originally enacted. It seems clear from published statements by various interest groups, as well as from the report of the royal commission, that the existing standard can no longer be regarded as adequate. It is the consensus within the pension commission, therefore, that the following specific recommendations of the royal commission should be accepted in principle, subject to certain provisos as noted:

Vesting should be required when a terminating employee has completed five years of continuous service or plan membership, regardless of age.

Employee contributions should be required to be locked-in simultaneously with vesting, interest to be credited and compounded annually at not less than one per cent below the Canadian chartered banks' non-chequing savings rate. In the case of a vested defined benefit, the cost should be allocated so that the employer's cost is deemed to be at least 50 per cent, with the terminating employee entitled to a refund of excess contributions.

Mr. Peterson: In cash?

Mr. Priestner: Yes.

Transfer rights: A terminating employee should have the right to transfer 50 per cent of the value of the deferred life annuity to another pension plan or retirement savings plan on a locked-in basis in either case. A similar transfer right for the plan sponsor might be considered.

The royal commission, I believe, was silent on that.

Mr. Brandt: Could you elaborate on that last sentence where it reads "A similar transfer right for the plan sponsor might be considered." Exactly what is your intent in that?

Mr. Priestner: If there is mutual agreement, if I am leaving my company and both myself and the employer have contributed towards my benefit and there is a vested entitlement, then not only should I have the right to move my half to the new employer or to a registered retirement savings plan, but so also should the employer have that right with his half so that the benefit can be kept together in total rather than be in two places, and so that the employer is free of the continuing obligation of tracking.

10:30 a.m.

Mr. Brandt: In effect, they would be moved in tandem is what you are saying. The two of them would be coupled or combined and would be moved with the employer's agreement.

Mr. Priestner: The only thing I would change is "could" instead of "would."

Mr. Gillies: Where their plans are compatible.

Mr. Priestner: Yes, and where the plans permit.

Mr. Brandt: In effect, the advantage to the employer is that he, upon making this transfer, would then be in a position where he no longer has an obligation or any liability with respect to that specific employee.

Mr. Priestner: Correct.

Mr. Brandt: That employee is wiped off the books for purposes of any further tracking, as you have put it, or administrative costs and so forth.

Mr. Priestner: Yes.

Mr. Peterson: Why only transfer 50 per cent of a vested benefit? Why not 100 per cent?

Mr. Priestner: We are talking about defined benefit plans here. The premise is that in the defined benefit plan, we would be obligating the employer to pay at least 50 per cent of the value of the cost of that; presumably the other 50 per cent is attributable to the employee. If what he has actually contributed with interest is more than that, he can get a refund of the excess. Then he has the right to move his 50 per cent somewhere else. In that case he would still have 100 per cent of the benefit. One would be coming from where he moved it to, the other from the former employer's plan.

Mr. Peterson: That is what I thought I understood. But why not let him have the option of transferring 100 per cent of that vesting?

Mr. Priestner: That is what we are recommending.

Mr. Peterson: I am just looking at that line.

Mr. Priestner: That is in terms of the pension commission's view. The royal commission dealt only with the employee's right to his half of the benefit. We are expanding that. We are suggesting that we ought to look at making it go beyond that so the thing can be kept as a whole.

As to who has the right to trigger it, we have not gone into the detail to reach a consensus on that. Whether it should be the employee who can cause the trigger or whether the employer should have some say or whether there should be some mutual agreement, we have not gone into that. Is that fair, Gordon?

Mr. Milling: Yes. I think one other point might be mentioned here. The brief makes it clear, but perhaps it could be made clearer. We are talking about a very basic change from the provision in the present regulations. In regulation 16 the transfer right is actually given to the plan sponsor to put such a provision in his plan. But if the transfer provision is not written into the plan--and, of course, this is the case in most plans--the present law does not give the employee a right to ask for the transfer.

The main change here is that this right would be guaranteed under the act or the regulation. The right would be given to the individual employee whether the plan provided it or not.

Mr. Peterson: I think I understand everything you are saying. What I do not understand is this line, "A terminating employee should have the right to transfer 50 per cent of the value of a deferred life annuity to another pension plan." I don't see why he does not have the right to transfer 100 per cent.

Mr. Milling: This refers back to the previous paragraph. The change that is recommended here is that the vested benefit should be deemed to have been paid for at least 50 per cent by the employee.

Mr. Peterson: I understand that.

Mr. Milling: So the remaining 50 per cent would then be deemed to have a special characteristic. It then belongs entirely to the employee. Therefore, the employee should be given the right to ask that the value of that benefit be transferred to another plan or to some other locked-in vehicle. This is where the 50 per cent comes from.

Mr. Peterson: I understand that too.

Mr. Priestner: Are you saying you do not understand why we did not recommend making it compulsory that the employee have the right to move the whole thing?

Mr. Peterson: Not compulsory, but at least have the option of moving 100 per cent of the benefit. That is my question. I don't understand why not.

Mr. Milling: On that specific point, I think it would be fair to say that the PCO took the same view as the royal commission, that if the employee had a right to transfer 100 per cent of the value this could create some serious cash flow problems for the plans because it would conceivably mean that each time an employee left employment, was leaving that plan, the cash would have to be made available for such a transfer. If there were a large number of terminations in a short time, this could threaten the solvency of a particular plan. We are also concerned with solvency.

Mr. Priestner: I also think that if your conception is that all plans are at any one time fully funded and that the employer has paid in his full share, then your concept would work quite nicely. If it wasn't fully funded and you took 100 per cent of that particular employee's money and moved it somewhere else, you are impairing the rights of the remaining members and you get into a fairly complex issue there.

Mr. Peterson: You are addressing my concern; I understand what you are saying. The other side of that, of course, is that you are fragmenting the system and you are forcing the guy to have two or three or four plans and complicating a lot, so the old employer has still got to carry that guy on his books for half of his life.

Mr. Priestner: He could leave it; that would be a right.

Mr. Peterson: He could leave it, so the old employer is obliged to carry it on his books, track him down 30 years from now and find his widow or something.

Mr. Priestner: It is a very complex matter.

Mr. Peterson: It is not a neat solution to the problem. Is there a neat solution to the problem I have posed?

Mr. Priestner: Not that I know of; there is not a neat solution. In a fully funded situation, there is a neat solution.

Mr. Peterson: What about a transfer? The employee option to transfer 100 per cent of the vested benefit to the new plan, to buy his way into the new plan and allow the old employer some time to pay up to the new guy. In other words, if he is not funded and it is going to take him 10 or 12 years to fund his own--the old employer is going to take some time to fund his plan--allow him some arrangement with the new employer where he--

Mr. Brown: That is not neat either.

Mr. Priestner: That is not neat at all. That is 10 years of administration on behalf of a former employee, and that is a lot of tracking.

Mr. Peterson: But it is a lot of tracking to find a guy after 30 years too, and they forget they've got this little pot of money sitting somewhere.

Mr. Priestner: I appreciate that what we are recommending here is not a total solution, but I think it is a fairly large step forward from where we are today.

Mr. Peterson: If I had the answers, I would tell you. At this point, this might call into need the central pension agency--well, that is not going to solve the problem either, is it?

Mr. McClellan: The reality is there is no perfect solution.

Mr. Priestner: I think that is exactly right.

Mr. Peterson: We will find it. We are just digging for it.

Mr. Mackenzie: This is trying to correct the portability question with the private plans.

Mr. Priestner: At least this puts a corridor around the employee's share and it gives him freedom to deal with that, and then it opens the door for consideration of the other half.

Mr. McClellan: I agree that it is possible to vastly improve the situation, but I still wonder how much of a gap there is going to be or how many problems are going to remain and how serious those problems are. I am not sure that we have any sense of that yet.

Mr. Milling: One part of the problem--and this has been mentioned--is the problem of tracking, and we are just about to reach the point that deals with a central transfer agency, which might perhaps offer a solution to the problem of tracking. That wouldn't mean there wouldn't be any problems, but there at least there would be a record-keeping function in one central place.

Mr. Peterson: Since we are discussing each point as we go along, and I gather we are going to get into great detail on each one because these are very authoritative gentlemen, this one troubles me; it really does. I don't have a better idea than you have got at all, but the solution of making reciprocal deals,

forcing the employer to pay up to the new guy, is not a good solution in your opinion. It is more complicated than having two or three different plans. Doesn't it bother you in terms of philosophy that an employee with a varied work career could have three or four or five or six different plans? That is the fallout from these kinds of suggestions.

10:40 a.m.

Mr. Priestner: It's not a fallout from these suggestions; it's a situation that exists today. This would help to start to solve that problem, but it's not a total solution.

Mr. Peterson: You are suggesting complete flexibility. If he could transfer that 50 per cent to an RRSP, how much flexibility would you give him on the transfer rights on tha? He could go to his new employer, RRSP, central pension agency--

Mr. Priestner: Retain it with the present employer.

Mr. Peterson: Any one of those four or five options.

Mr. Priestner: Right. As long as it was locked it, as long as he couldn't get his hands on the cash.

Mr. Peterson: How do you see that working? Let's suppose a guy who has worked for eight years under this kind of plan is going to leave when he has got four, five or six options. Do you see the competitive market force as coming in and the new employer saying, "Here is what we will give you," and Montreal Trust will say, "Here is what we will give you," and the central pension agency will say, "Here is what we will give you."? Everybody is competing, and that guy looks at his benefit and says, "Okay, here is the best deal."

Mr. Priestner: We have that today in the additional voluntary side that many plans provide. In our company I know we have a typical additional voluntary plan. We put a corridor around that money and treat it a little differently than we do the other benefits.

When that employee leaves we say, "Look, here are some choices. You can leave it here." Or if he retires we say, "Our rates are such-and-such, and if you don't like those there are other places." And we give him some guidance and counsel as to where he might go to investigate. I don't think it's ever the responsibility of the employer to say, "Go to Canada Permanent and not to Royal." But at least you can provide some practical guidance as to what the options are, to make sure he understands those options and give him a reasonable amount of time to make the choice.

Mr. Peterson: Let me ask you something. In a sophisticated company like Westinghouse do you have--this is a pretty esoteric subject for 99 per cent of the people who were involved--sophisticated counselling in that area? When an employee leaves you--I just use you as an example, or another large company--would you sit down with the employee and say, "Look, here is what you have; here is what you are entitled to"? Most people who look at those little forms even don't understand them.

Mr. Priestner: It's just starting to happen. Preretirement counselling is a big thing today. It has got to start five years ahead of retirement.

Mr. Peterson: This is pretermination retirement. You might have fired the guy.

Mr. Priestner: Yes.

Mr. Peterson: So you sit down in a nice friendly chat and say, "I am sorry to fire you, Jack, but here are your six options."

Mr. Priestner: Yes, that happens.

Mr. Peterson: It is your view that we have a sufficient level of knowledge--and disclosure is a different problem, but it relates to this--and understanding that employees can make those intelligent choices as referred to in your proposal?

Mr. Priestner: You put the word "sufficient" in. I am not sure that I will accept the word "sufficient." I say that it's there and it's starting and the quality will vary.

Mr. Peterson: So you are a very sophisticated company. There are a lot of companies that just don't have the resources you have to do these kind of things.

Bob, you had a perspective on this that I don't have.

Mr. Mackenzie: Well, I think Mr. Priestner is right that it's starting to happen, but the tendency is for it to happen in the larger companies and not in the smaller ones; they're a little slower off the mark.

Mr. Chairman: Anyway, Mr. Priestner, it seems to be a step forward to me. That is my observation. It makes a lot of sense.

Mr. Peterson: It seems to me, Mr. Chairman, in dealing with this delegation we really have got some nitty-gritty questions to deal with. We are not dealing in the broad conceptual stuff today; we are dealing with the real guts of this thing.

Mr. Chairman: I appreciate the subject matter, Mr. Peterson.

Mr. Peterson: I am terribly interested in a detailed analysis of their thoughts on a number of these issues. I hope you don't mind.

Mr. Chairman: I appreciate it and I understand what Mr. Priestner is saying here. My observation is that it could be a step forward.

Mr. Peterson: It's half a step forward.

Mr. Chairman: A significant step forward. But that's my view, and I'm sure the committee will get an opportunity later to toss around these suggestions.

Mr. Gillies: Mr. Chairman, I wonder if I might ask Mr. Priestner a question. In arriving at the five-year figure, or at least endorsing the five-year figure on vesting, is that based on any costing analysis from the commission? It sounds like a reasonable figure, but what I am trying to get at is why five years as opposed to three or seven or whatever?

Mr. Priestner: There was no computer program that said five was the optimum number. Secondly, I guess the theoretical view of the commission is that we ought to get it as low as is reasonable; ten was too long, for example, and one or two was too short to be practical.

Mr. McClellan: Can you explain that? We had Mercer in front of us yesterday saying that we could live with two.

Mr. Priestner: I can't explain how Mercer arrived at that.

Mr. McClellan: No, and I don't expect you to. But do you have some concerns about two-year vesting, and if you do could you share those with us?

Mr. Mackenzie: I don't think Mercer were the only ones, though they were the most definitive ones. We have had others saying, "Hey, we need not have necessarily five." There have been a surprising number who have been before us who have indicated that they wouldn't be shocked at even something less than five.

Mr. Gillies: This is why I raise it because I would hope this is one area where we might come to a consensus for the interim report.

Mr. Brown: I don't think this is a matter of principle. In other words, we are not saying that five is right and only five is right. One of the concerns of the commission from its inception has been to promote better vesting. In theory we would like to see it, as Ted Priestner has said, as low as is practically possible. There are two practical considerations. One is the cost burden that you are talking about. We have got some numbers later in our submission that I have taken from the royal commission research as to the cost effect for various types of plans of going from a 45 and 10 rule to a five-year rule. As you will see, there is quite a bit of variation from one plan to another.

What doesn't show up in the royal commission report, but what we have some sense of, is that the cost of going to an even shorter period gets into larger amounts of money. I don't know that the cost criterion is the most significant one. A more practical problem is that when you start getting down to, say, two years--talk about little bits and pieces--you are really starting to talk now about very small fragments of benefits just in terms of practically being able to handle them and it being something that is worthwhile for the employee to have. I think the consensus of the commission was that a five-year rule would be a big step forward from where we are now, and it seems practical in terms of the size of benefits that will develop for an employee and the cost that an employer could accept.

Mr. Priestner: There are a couple of other points also. When we get into other sections dealing with inflation and how to cope with that in the case of vested benefits, the administrative practicalities come into play, in other words, keeping track of a lot of little bits and pieces if they are going to be upgraded. Secondly, it's an easy rule to change. Five is easier to change to four; five is a giant step from where we are. To a large extent we are dealing in what we think it is possible to implement with reasonable dispatch.

Mr. Peterson: Is there any phase-in period on that in your judgement? Is that automatically for five, or would you give them three years?

Mr. Priestner: I always believe in a warning. We are not in favour of a graduated approach taking 10 down to five, but some reasonable warning period of funding.

Mr. Peterson: Would you do it retroactively?

Mr. Priestner: Yes.

Mr. Brown: To the date of the legislation. The legislation now specifies vesting requirements for certain benefits that occurred after the legislation was originally enacted in 1965. To the extent that we have discussed this within the pension commission, I think the thinking is that the five-year rule would simply replace the 45 and 10 rule for those same benefits.

Mr. Priestner: The active employee now who has accumulated five years of service and quits tomorrow would get it as soon as the law came into force. The guy who had already gone out and is somewhere else would not.

Mr. McClellan: How much warning, in how much time would the industry be required to make the adjustment--the minimum period of time?

Mr. Priestner: If you can give me a date when the legislation will be enacted--

Mr. McClellan: It will be passed by December of this year.

Mr. Priestner: December of this year? I would say in January of the subsequent year. Not a day away but a year away--something like that.

Mr. Peterson: If you can tell us if we are taken seriously, then we can tell you when the legislation is going to be coming along.

Mr. Brandt: I can understand why you propose five as the number rather than 10 or whatever, but could you perhaps elaborate on why you would drop the age qualification? In the Saskatchewan legislation, as an example, they have come up with a combination of the two. In our previous legislation we had the 10 and 45 requirement. Is there a particular reason why age is not a factor in your view?

10:50 a.m.

Mr. Priestner: I guess we view the employee during his working lifetime, or most of it, as accumulating his pension for the future. That should be regardless of age.

Mr. Brandt: So you really do not think that age is a factor that should be taken into account in coming up with a number?

Mr. Priestner: No, that is the consensus of the commission.

Mr. Brown: To me, the present law, with its double barrel requirement, has always been a serious weakness in the rule. You can have 20 years of service and still not be age 45 and not come under the protection of the present requirements of the law. The Saskatchewan approach does get around that by speaking in terms of the total of age and service adding to the number, but that seems to me to be (inaudible). I think the simple service rule is one that everybody will understand.

Mr. Brandt: One of the reasons I raised the question is in light of the direction taken by Saskatchewan. I think that there is an underlying concern and, as well, an underlying interest in developing some element of uniformity in pensions throughout the country. If you have one province moving towards a combination number as a philosophical approach to correcting the inequities in existing legislation, then perhaps we should at least look at that combination as a possibility. I am not saying that Saskatchewan is right. I raised this question with Mr. Bentley earlier. He has given us his views on it. In fact, it was one of the first questions that he answered directly to this particular committee after great harassment on the part of some members of the committee.

Mr. Bentley: Three hours of harassment.

Mr. Priestner: How long did it take you to get an answer?

Mr. Brandt: An unconscionable length of time.

Mr. Peterson: We are all on to you now.

Mr. Brandt: But I appreciate your response.

Mr. Chairman: We are not discussing the clarity of the answer either.

Mr. Bentley: You asked me how I could be a chicken and a weasel all at the same time.

Mr. Gillies: Mr. Peterson was also pursuing this question on the transfer right. What you saying is that as a minimum position the employee should be able to transfer roughly 50 per cent of the benefit, or within reason his portion of the benefit.

Mr. Priestner: Yes.

Mr. Gillies: I can fully appreciate what you were saying in terms of taking 100 per cent was that if a department in a plant were to close and 25 or 30 employees were suddenly withdrawing 100 per cent of the benefit it could jeopardize the viability of the entire plan. This may be horrendously complex, but do you feel there might be a compromise position between the two whereby the employee could take with him a portion of the employer benefit but not to the extent that it jeopardizes the integrity of the plan? Do you think that would be workable?

Mr. Priestner: If you did that you would be going to Mr. Peterson's concept of the former employer continuing over a period of time, maybe as long as 15 years, paying up the difference. I think that is where the complexity of the thing comes in. It would be two companies actuaries arguing over whether you are sending me enough or too much kind of thing over a period of 15 years on behalf of somebody who is no longer making widgets for the first employer. I think that is a little too complex for what we are ready for today.

Mr. Gillies: You speak of two company actuaries arguing it. Do you not particularly see a role for government perhaps in mediating such disputes, say, your commission or this new agency that we are talking about, or whatever?

Mr. Priestner: The central pension agency introduces another option into the thing. My view would be, as a practical matter, to go with something like we recommended with respect to the employee rights to study further whether there is a practical solution to the second part, the employer portion, and to work towards that as a matter of principle. I am not prepared, and I do not think the pension commission is prepared, to say there is a nice little solution in the briefcase and all you have to do it implement it.

Mr. Gillies: But we should leave the door open on such possibilities.

Mr. Priestner: Yes, but make the statement that the concept and the right should be there and the subject ought to be studied.

Mr. Peterson: On Mr. Gillies' point here, just to pursue this, is there some kind of a compromise? Let us say it was unfunded. He has to bring it up to half funding, or the employer may even opt to take out the employer's contribution even though it is not totally funded. Depending on the dollar amounts involved, he may be going into a better plan, or something like that. I would like to see some option at least where he can get his hooks on the employer contribution under some circumstances.

Mr. Mackenzie: Trigger the experience efficiency factor, or something, if a large number of people (inaudible)

Mr. Brown: I would like to add something here. It seems to me that if we went even as far as the 50 per cent proposal that we are suggesting here, there would be a lot more transferring of benefit entitlements taking place than is now taking place.

I think that you should recognize that the employer, as a practical matter, has a great interest in getting rid of this problem, if he possibly can. He may very well say, as you just did, "I will put up the money to see this problem dealt with." He will hand it over to somebody else. Neither the employer nor the employee really want to retain any connection with each other after they have split. That is the typical situation.

I think the practical result, when a 50 per cent transfer is being made available anyway, is that there will be, just in the nature of things without necessarily writing it into the law that it has to be this way, a lot of practical pressure on all the parties to go to 100 per cent transfer if they can find any way of doing it without messing up in some other area.

Mr. Priestner: I agree with that. Gordon mentioned the cash flow problem. As an employer and a company sponsor of a fund, I think that can be solved. You can always tailor your investments to an expected experience. That is probably the easiest of the problems to solve. I would love, as an employer, to get rid of it--

Mr. Peterson: Leave it alone. You will solve the problem--

Mr. Priestner: --to throw the records away and say, "I am now worried about today's business not yesterday's business."

But I can see all of these other practical problems and I can see, as the employer sponsor for those five or six years of service, that I have an obligation with respect to that, and I really do not know how to satisfy it.

Mr. Gillies: By the same token, I can appreciate what you were saying if you had a small company of 100 employees and suddenly a department closed and 25 of them were gone. We do not want to bring in new regulations that would jeopardize the pension benefits of the whole 100 employees.

Mr. Priestner: That is an unfair impairment of the employees who stayed.

Mr. Gillies: That is why I am wondering if there is some intermediary position.

Mr. Mackenzie: Also because of those five or six changes, or whatever the number, in a lifetime, you are going to end up with an awful lot of split accounts.

Mr. Priestner: The vesting proposal is going to accelerate that, quite apart from where it is now. It is going to be a big learning process for everybody. It is going to be thrust on them.

Mr. Gillies: It think it also becomes more and more apparent that this new central agency is going to have a great number of very complicated problems on its hands. We may, in a sense, be creating a major agency of the government.

Mr. Peterson: It is a cheap source of funds. What are you worried about?

Mr. Gillies: I am not worried.

Mr. Priestner: We do not recommend that.

Mr. Peterson: I know that. I am just making fun of my Tory friends here.

Interjection: They need a new hospital in Brampton.

Mr. Priestner: Having so many friends in the investment business, I would like to go to the next recommendation, which deals with the central pension agency.

Mr. Brandt: David, could we hear your position on that cheap source of funds some time? I have never really had an opportunity to hear you speak to that issue.

Mr. Chairman: He has not been unequivocal.

Mr. Brandt: I am glad that this monster that is being proposed that be created here, that Phil was talking about, is just about in time for Welles's retirement so that the two might be contiguous in some way.

Mr. Bentley: I will retire for sure.

Mr. Peterson: Wait until we raise the age of retirement. Do not worry about that.

Mr. Gillies: You are referring to the Bentley Pensions Institute.

Mr. Bentley: With the price of gas going up, how the hell can I afford to retire?

11 a.m.

Mr. Priestner: Are you exempt from the ad valorem tax?

Mr. Brandt: The Liberals' ad valorem was real good yesterday. Do you want to talk about that?

Mr. Peterson: It is a victory for Canada.

Mr. Brandt: As the arrow slides through your body, it is a victory for Canada.

Mr. Priestner: It was indeed yesterday a victory for Canada. It was nine to zero, I believe.

The central transfer agency, as we understood the royal commission's recommendation, was that if there is a PURS-type plan, there ought to be a central pension agency to record and keep track of things; and if it is there, it might as well go further and represent an alternative pension investment deal. We

are recommending that an agency, along the lines proposed in the royal commission, be established primarily for the purpose of recording the vested pension credits of terminating employees and facilitating the transfers we have been talking about, but also as an alternative investment vehicle with or without a PURS.

Mr. Peterson: Why is it necessary to record everybody's name on some giant computer at Queen's Park? Why is that necessary as opposed to just legislating portability and let Westinghouse go to Firestone and that's it?

Mr. Priestner: But when you go from Westinghouse to Joe's Doughnut Shop, and you spend five years there and go somewhere else and then Joe's Doughnut Shop disappears, I think there is a need and there is a function to perform.

Mr. Peterson: You would force every single employee in the province under that computer.

Mr. Priestner: With respect to the recording of accumulation of benefits, I think that is the position, not with respect to whether they use that as the investment vehicle.

Mr. Peterson: I understand what you are saying, but I want to pursue this question because it is a giant one. It is a hell of a big job. There are going to be disputes and disagreements, I assume. You are going to cast the pension commission, or whatever it is, almost into a sort of ombudsman role. Some guy phones up and says, "Hey, where is my pension?" and they say, "Gee, I don't know". They hit the button and there it is, Joe's Doughnut Shop, which went out of business in 1961. Is there any way we can solve the same problem without this central agency?

Mr. Milling: The best thing we could do perhaps is to refer you to the royal commission report. I think you will find this mentioned in volume II. I don't have it with me.

Mr. Peterson: We have looked at that. I want your opinion.

Mr. Milling: One factor that has to be kept in mind here in talking about a transfer agency is that it is not offered purely as a solution to some problem of plans and supervisory agencies and so on. The fact is, and representations were made to the royal commission to this general effect, that people are having great difficulty even now with the rather high vesting requirements.

They are having trouble keeping track of their vested pension credits, not necessarily because they are careless about throwing out the little information slips they get, but because by the time they are actually ready to retire at age 65, let's say, 25 or 30 years from now, the companies from whom they got those information slips may not be in business or they may be in business, but the name of the business may have changed five times in the meantime. The companies may have gone out of business and

the money to back up these vested credits has been transferred to a life insurance company to buy deferred annuities, for instance. But in many cases there is no practical way of getting this information on a continuing basis into the hands of the people who have these vested pension credits.

Mr. Peterson: Why not?

Mr. Milling: That was the question asked by the royal commission, "Why not?" One of the suggestions was that perhaps there should be some central recording agency to keep track of the vested pension credits, and when a person reached retirement or was approaching retirement, he could go to one place to find out how to claim his vested pensions.

There are a lot of questions, Mr. Peterson; there are a lot of very interesting technical backwaters here. It would certainly take a lot of work to build up a feasible system.

Mr. Peterson: I just want to discuss all these things with you and get your opinions on them. I mostly understand what the royal commission is saying but I obviously do not agree on every point with them.

What about, for example, an annual, semi-annual or even quarterly obligation by the employer to mail? Put the obligation on the employer and say he must mail a little slip once every three months, six months, a year, or whatever, to each person who has a benefit under that plan, telling them what their benefit is, where they are on a little form, saying, "You guys are now 63, but in two years you are going to be entitled to so much, and in order to claim that, here is what you will have to do." You can print that on a computer; that is easy to do.

Mr. Priestner: That is an alternative approach. It imposes a burden on the employer.

Mr. Peterson: We are imposing a hell of a lot of burdens on employers, looking at this thing. We are changing the world with this system. Is that such a big deal?

Mr. Milling: Yes, it probably is--at least, if you listen to what some of the plan sponsors have said over the years. They have asked the pension commission, as a matter of fact, if they could not be relieved of the obligation to keep track of all these little vested pension benefits.

For larger employers certainly it can be a very formidable problem because the number of claimants, the number of people with rights, increases on a cumulative basis year after year, and people move and are hard to trace. Has the employer fulfilled his obligation by simply trying to get in touch with individuals?

Mr. Peterson: The point is you are now going to have two agencies. The employer and the central agency are going to have to record the same information, right? So you have a duplication of records and, presumably, in most cases they will jibe. But they might not; you will get different things, different people running different machines and all that kind of stuff. There are going to be screwups and disagreements.

You have to ask yourself whether it is productive to duplicate that same information--at least, I think you will have to. I do not want to create a monstrosity that is not absolutely necessary.

Mr. Cousens: As a supplementary, how central is this transfer agency going to be? Would it be something just for the province, or would it be something for the whole federation of provinces, as we now know it?

Mr. Priestner: The province is the recommendation.

Mr. Cousens: All the provinces?

Mr. Priestner: A provincial agency. It is hoped that through co-operation with CAPSA and others, there would be a similar agency set up in other provinces.

Mr. Cousens: Utilizing a common format?

Mr. Priestner: Yes. It would have to be that way so that there would be an exchange of information.

Mr. Peterson: Let us assume that you have a series of regulations where the employers' responsibilities are semi-annual mailing, best efforts--whatever that means--to find the guy. Surely we can reasonably expect some responsibility of the beneficiary at least to keep in contact. He has a little slip that he keeps in his drawer that he has a vested benefit and he knows he is entitled to it in a few years. It tells him if he moves to send a note.

If the chap disappears and goes out to Alberta to work in the oilfields, that is tough bananas. You have to apply for old age pension. It does not just automatically come. You have to do a lot of things in society because you fight for your rights.

Mr. Priestner: Just put yourself in the shoes of the widow. She may or may not be dealing with a lawyer on the death of that employee. He may or may not have kept that little slip of paper he got from Joe's Doughnut Shop, saying he has some entitlement. But that lawyer has got to be bright enough to recreate the guy's total past and ask a whole bunch of people a lot of questions.

I think it would be simpler in that situation for him to be able to go to-- Believe me, I am not in favour of a lot of government, but I think this is one area where there can be a role played.

Mr. Mackenzie: By the time she got finished with the lawyer, he would have all the money.

11:10 a.m.

Mr. Priestner: You made the analogy of the old age pension, Mr. Peterson. I think that everybody from bank managers

to lawyers, whoever is advising people, knows that there is that situation and knows how to make application for it. That is not generally the case with a person who has put together a lot of little clumps of employment over the years.

Mr. Peterson: You could give the guy a little note--I am arguing with you, I know--saying, "Please keep this. Put it in your personal records file and make sure that your estate knows about this."

We are starting on a massive educational program, no matter what we do; you started it with Bill 14 or whatever it was. All of us have a huge job ahead of us in what we are doing here to change people's expectations and change people's knowledge of the whole situation. It is generally recognized that people's consciousness level has been dramatically raised in the last couple of years with the great public debate on this issue. It is part of the process. I am just not satisfied.

Mr. Priestner: Your view is it would be more efficient to have one and keep the onus on the employer and the employee to keep track of things.

Mr. Peterson: Yes.

Mr. Priestner: I guess the view of the commission is that there is a role for a central agency.

Mr. Peterson: I am just arguing a point.

Mr. Williams: I think your proposal is really impractical. You just can't assume that beneficiaries, the lawyers, can be put in the position of having to determine what his past employment history was.

Mr. Peterson: Just because you forgot what you did last year does not mean other people have.

Mr. Williams: The fact that the companies have changed names, relocated, gone out of business, all these things make it extremely difficult and impractical to leave the onus on that individual.

Mr. Peterson: You just address those things. If they get an annual or semi-annual mailing, talking about who is handling the funds he is entitled to--

Mr. Williams: A universal program obviously is going to have to be centralized in a government agency.

Mr. Peterson: This is not a universal program we are talking about.

Mr. Williams: It is, provincially speaking.

Mr. Peterson: I am sorry, it isn't. We are just talking about changing those people who are covered now. We have not even

talked to these gentlemen about PURS or CPP or anything else. We are just talking about those people who are at present covered and cleaning up the Pension Benefits Act. That is all we are talking about. The PURS system is a different argument; I respect that.

Mr. Williams: You are speaking about that. I am speaking in the broader case. I think a central agency is the only realistic approach.

Mr. Chairman: Gentlemen, I do not think there is much point in being argumentative about it. There are different points of view and legitimate points of view. If you can do without a commission, then so much the better. What I am wondering is whether with more immediate vesting and portability some new problems will be created that may demand new solutions. It may be at the present moment we do not need this kind of a product, but we may need it in the future. That is something that I guess we are going to have to think about.

Mr. Priestner: One point we would like to add is the last sentence--and this is a fairly strong consensus--that if there is this function of using such a central agency as an investment vehicle, the investment function should be contracted out to the private sector.

Mr. Chairman: I understand the safeguard.

Mr. Peterson: I think we should use that money to buy more government jets and things like that, don't you? We need more land.

Mr. Brandt: How about expanding airports? Would that be a good idea?

Mr. Cureatz: Send more money to Tanzania.

Mr. Chairman: David, I would be cautious about that and the party platform you are planning. It may come back to haunt you.

Mr. Williams: If I may just come back to the other point that was made prior to central transfer agency, the commutation right. Talking about the 25 per cent right being removed, save and except for small annuities, which are defined in recommendation 49 as being \$25 or less, unless the pension commission had some other amount in mind, do you feel that that \$25 amount is realistic?

Mr. Priestner: On that point I think we should point out that the \$25 commutation limit for small annuities has already found its way into the Pension Benefits Amendment Act, 1980, as of last Christmas. The amendment has actually been made to 21(3)(b) of the act.

Mr. Priestner: It used to be \$10?

Mr. Milling: It was \$10, yes.

Mr. Williams: That still does not answer my question.

Mr. Milling: Would you mind giving me the question again?

Mr. Priestner: Is it too small?

Mr. Williams: Yes, right. Do you think it is realistic in that sense?

Mr. Priestner: If you go to earlier vesting, the \$25 commutation right, it does not seem to be too small. It is a sizable amount of money when you add up the present value of the cost of that.

Mr. Williams: It just seems to me that something in the neighbourhood of \$100 or something like that--

Mr. Priestner: One hundred dollars a month?

Mr. Williams: Do you think that would be more unrealistic than the \$25?

Mr. Milling: What we would have in that situation is precisely what we are trying to cure with the recommendations on portability. That, for instance, could mean that a certain person could reach retirement age; he might have had a whole slew of vested benefits, let's say, five different vested benefits, each of them just around the \$100 mark. If he had not been permitted to take the cash out, he would have a \$500 a month pension. If there was a \$100 commutation privilege, he would not have anything by that time.

The question of the \$25 is a matter on which I do not think anyone has done any feasibility study, any cost-benefit analysis; it is a purely arbitrary figure just like the old \$10 figure. What we were trying to get at here was some figure with which the general public would agree and we could probably agree too, that it was not worth while keeping track of those very small amounts. But it is a very arbitrary number. Most of us would say that \$100 would be far too large a limit.

Mr. Brown: One hundred dollars a month at 65 is worth somewhere over \$10,000. You are talking about a lot of cash by the time you get up to that amount.

Mr. Brandt: When?

Mr. Brown: At 65.

Mr. Williams: Where would \$50 leave you in your quick calculating?

Mr. Brown: At half that, at \$5,000.

Mr. Williams: In other words, it is something that would have to be reviewed from time to time, bearing in mind what the value of the real dollar is.

Mr. Priestner: The theory is you should allow nothing to

be commuted. Then what is administratively practical? Nothing is not administratively practical. Because you have a pension of \$3.80 a month to look after that and keep track of it and so on, it is--

Mr. Williams: Really what I was looking for is the optimum situation where you would have the least amount of bureaucratic mess in trying to deal with some allowance or commutation.

Mr. Priestner: One hundred dollars a month would get you in the position where it buys you a good boat or a new car. It is tempting. It is just an arbitrary figure really below which we think it is administratively impractical to--

Mr. Williams: So you could just as easily have picked \$30, \$35 or \$20.

Mr. Brown: I think I am right on this, Wells; maybe you could correct me. A number of the other jurisdictions have already gone to \$25. The income tax regulations now permit \$25. So the royal commission and we are following what is actually taking place elsewhere on that at the moment.

With continuing inflation it is like any of these other numbers that are picked out; it is something that will have to be reviewed every once in a while.

Mr. Chairman: In the meantime, it is a sensible number. It is used by other provinces, and when you get above that it is more than whisky money.

Mr. Williams: The \$25 just came in this past session. When was the last adjustment before that? How far back did we go?

Mr. Milling: The \$10 in the act was in the act in the 1962-63 version of the act and it was in the 1965; it was \$10 throughout.

Mr. Williams: So this is the first adjustment that has been made?

Mr. Milling: That's right.

Mr. Priestner: David, you wanted to make a comment on the central pension agency just before we left today.

11:20 a.m.

Mr. Brown: I was concerned about the rationale or Mr. Peterson's questioning of the rationale for having an agency. It seems to me that the main reason for it is the long-term nature of the problem. If somebody is terminating employment today with an entitlement to something that he can't get any benefit from for another 30 or 40 years, it is not a matter of remembering what he did last year or the year before; it is a very long-term thing. I think, as distasteful as you might find a centralized solution, it is the only practical one.

Mr. Peterson: You may be right. I am not sure. I am just playing the devil's advocate here. I certainly see merit in it but I also see how that function could be forced on other people. Maybe it can't, so I am wondering about it.

Mr. Priestner: Do you want us to go on then, Mr. Chairman?

Mr. Chairman: Yes.

Mr. Priestner: Now that we have the central pension agency all set up, the commutation rights, the vesting earlier and a fence put around the employee's rights, we are now getting at the eligibility requirements which are defined in section 23 of the act. They are pretty vague. They give the pension commission the discretion to deal with cases where specific age and service conditions prevent the gradual accrual of benefits. Our opinion is that an eligibility should be incorporated similar in effect to that proposed by the royal commission in its recommendation number 100, which is a maximum service requirement of two years for employees age 35 and under and one year for those over age 35.

Mr. Peterson: Why 35? Why the distinction? Why not just one year?

Mr. Priestner: Why not just one year? I think it is just a matter of looking at the turnover problem among young employees. You enrol him, you collect his contributions, you set aside money for him and then there is a big turnover. Thirty-five would still allow sufficient time to accumulate a reasonable benefit. Again, it is an arbitrary number. By the time you get a young employee in there and he has put two years in, he is in. He has only given up one year compared to the guy who is over 35.

Secondly, the royal commission recommended, and we agree, that pension plan membership be extended by law to part-time employees where there is a durable employee relationship between employer and employee. Please do not ask me to define what a durable relationship is.

Mr. Gillies: That is just what I was going to ask.

Mr. Priestner: Undoubtedly, this a recommendation that requires much further study. There are many plans that have continuous employment as the criteria for pension eligibility. There are many part-time employees who do not have a continuous but they have a regular relationship. There are some who work regularly but for short hours. So the word durable needs a lot more work. Is that fair?

Mr. Milling: That's quite fair.

Mr. Brandt: There are some larger companies in the retail sector in particular where a lot of these employees would be finding work at the moment. We do have a category known as permanent part-time employees where they have established a certain number of hours over a given year as the criteria for a

durable part-time employee or whatever you want to call it. Would a fixed number of 750 or 1,000 hours within a year be a reasonable workable number in your opinion or do you not want to give an opinion on that?

Mr. Priestner: Yes. The problem I have with that is that if there is some kind of either explicit or implicit employee contract that says, "Hey, you are a full-time employee in terms of your relationship with the company, the retail sales clerk; you are going to be here with us; you are on our payroll but you are not going to be working as many hours as a full-time employee," then I have no difficulty with that. That is a fairly clean-cut case.

If you said that only 700 hours is what it takes to qualify you for pensionable service, then there are many plans today that say, "Look, if you put in 500 hours and you get fired; you get reinstated and you put in another 300 hours, there is no pension benefit for that previous service."

There is all that kind of complication involved in defining what is durable. I don't think it is as simple as just saying the number of hours worked in a given period of time.

Mr. Brandt: But, in fact, in order to make it workable you are going to have to find some kind of mechanism that will allow a kick-in factor at a given number of hours or months or weeks or whatever, and perhaps with some legislated safety valve that would not allow an employer to do the kind of thing that you are talking about.

I do not know whether that's workable or not, but what I am getting at is that if an employer can effectively get away from his responsibilities by saying that you don't qualify for a pension or for any of the benefits if you work 500 hours, if that is the benchmark or the break point, I think there's something that has to be addressed in that particular question, if the employer can rather arbitrarily dismiss an employee to avoid his responsibilities in that particular respect.

I do not know quite how to catch it, but I think we have got to address that question because there are a lot of part-time people who are in the work force on a very permanent basis, particularly in the retail sector. I think some of the larger employers in this regard have already looked at it and have put a number on it in terms of hours.

Mr. Priestner: It's as if you have three piles to sort this out in. I would say that the kind of situation you are talking about we are saying ought to be in. The other kind where it's haphazard--"Come on in to work for a day. I'm making no promises to you beyond that. We may call you from time to time"--is probably not in. And then there's this great pile in the middle that will have to be sifted through to see if a durable relationship can be defined.

What we are saying is that in the durable relationship of

the type you described in the retail business they ought to have a right to be in the plan and it ought to be legislated. If there is a problem with the definition and regulations and so on, it will have to be worked on after more study than the commission is able to give it to define what that relationship is because as soon as you define it there will be end runs.

Mr. Gillies: My particular concern in this area came up when the Status of Women Committee was here. Particularly in retail, because there are more women in retail than men, an employer and employee may have what they both consider to be a durable relationship, even though it is part-time, where the woman may be leaving several times in the course of, say, three years to have children. I don't think it would be satisfactory for us to say arbitrarily that you have to work 18 months or two years in a row or whatever it might be to qualify because I just think there are any number of circumstances where that may not be suitable. Certainly leaving employment for childbearing is one of them.

Mr. Priestner: The other side of that, from the employer's point of view, is that if you hire someone for what you fully intend to be a one-time temporary kind of thing and then you say, "Thanks for a job well done; we may see you from time to time, but we are not sure of that," if you only define it on hours you are saying to that guy, "You'd better keep track of that (inaudible) because it may come back to be an important component in determining whether or not there was pensionable service." I can see a problem with that kind of thing. That's not a durable relationship. How to define it, I do not know.

Mr. Gillies: My perspective on this is that while I was a student I worked at an Eaton's store part-time. One thing that impressed me about that company is the number of employees with the T. Eaton Company, particularly, who are long term. Many women start working in an Eaton's store in their twenties and stay for 20 or 30 years, and I am sure that many of them have left several times to have their family. I am just wondering if we suddenly inject pensions into this scenario, how it will work out for them.

Mr. McClellan: It would be a real innovation for them.

Mr. Gillies: For whatever reason there does seem to be a very strong loyalty among their employees.

Mr. McClellan: It has nothing to do with pensions, I can tell you.

Mr. Gillies: That's what I'm saying. Now we are talking about injecting pensions into that scenario. I'm just wondering how it will work out.

Mr. Brandt: You are not attacking Eaton's by any chance, are you?

Interjection: Damn right he is.

Mr. Brandt: Are you? I just wanted to get it on the record. If you are attacking them let's make it known that you are.

Mr. McClellan: Most mean-spirited pension policy of almost any company in this province.

Mr. Brandt: Do you have no shame?

Mr. Gillies: What I am saying is that I don't know anything about their pension policy. I think Eaton's is a very fine company.

Mr. Chairman: That's pretty extravagant language.

Mr. McClellan: I know what I am talking about.

11:30 a.m.

Mr. Jones: Can I just ask a question? Assuming that we are able to find an acceptable explanation or definition of durability, and all that aside for a moment, I notice here that you are saying that if it's compulsory for the full-time worker then it should be compulsory for the part-time worker. Did you people, when you made that recommendation, give any thought to the fact that a lot of the people in that part-time category you were just talking about--whether it be 900 hours, as Mr. Brandt was saying, maybe in the drygood stores--would be working for some extra spending money to meet today's costs more than necessarily to provide for the future? In many cases they are women, I would guess, and a lot of them probably have a provider who is providing a pension (inaudible).

I notice that as you go on on page nine you say that if it's compulsory for the full-time. Did you give any thought to whether it should be optional for the employees?

Mr. Priestner: First of all, I think that the eligibility rules will take care of some of that because you are not in a lot of plans for the first year or, in some cases, two years.

If it becomes more durable and regular than that, we are saying that there ought to be a pension plan. If you are an employee, but you just don't happen to work as many hours as a full-time employee, you should be in a pension plan. If your typical year is 900 hours, and a total year of service for a full-time employee is defined as 2,200 hours, what we'd say is that that year is a year in terms of determining eligibility for vesting and other things, but the amount of the benefit is 900 over 2,200 times whatever the formula is. In other words, the employer is then paying as much and putting in as much for the cost of each widget and so on for that service as he would for a full-time employee, altered only by the number of hours and so on that are worked.

If you set anything less than that, you are going to run into the old problem of the young retail employee saying, "I don't want to know from nothin' about pensions. That's for tomorrow." He or she may need that pension every bit as much as anybody else if it's going to be a lifetime kind of relationship, albeit on a reduced basis. You go through the same argument: Should any pension be compulsory? And you go into all the actuarial arguments

about the accrual over the employee's working life, notwithstanding the age of any particular individual. I guess I'm not in favour of allowing the opting out of any employee who ought to be in a pension plan. I don't know if David would agree.

Mr. Brown: I would agree with what you are saying.

Mr. Jones: Just to help you with that, I wasn't implying that full-time was someone working full-time for 30 years; I was thinking more of seven years, with vesting at three or five--something like that.

Mr. Brown: But when you think of the people who are in part-time employment, what you are suggesting really is that if they are not depending on what they earn for their livelihood, they are unhappy about being obliged to go into a pension plan perhaps and about having at least part of their compensation delivered in that form rather than in dollars that they can go out and spend today.

I think if they want to be in employment there are all kinds of things they have to accept. They have to contribute to the Canada pension plan, for example; they have to pay income tax on what they earn, and so on. All we are saying is that if they are working in a place where part of the environment is a compulsory pension plan, then the fact that they are in part-time employment doesn't really make any difference.

Mr. Priestner: The second major point, adjusting benefits for inflation, I am sure is going to get a lot of interest and attention. The royal commission report contains a detailed discussion of the effects of inflation on fixed pension benefits, including vested deferred pensions as well as those in the course of payment to retirees.

It was pointed out that benefits under the main government-operated programs, the OAS and the CPP, are automatically adjusted for increases in the consumer price index. A similar type of protection in purchasing power would be extended to private plan benefits, up to a certain level, through a refundable inflation tax credit. That is outlined in recommendation 136.

A further recommendation, 139, is that pension plans and RRSPs be required to make available a participating annuity option under which a retiree or an annuitant could elect to receive a lower initial monthly income in return for future increases based on interest earnings above those required to pay the initial monthly income.

Other methods of inflation adjustment have been suggested elsewhere. All these proposals place the responsibility for a solution to the inflation problem somewhere outside the private pension system, either in the hands of government, which would place the cost burden on taxpayers generally, or on the shoulders of the pensioners themselves.

Another study, the Quebec Cofirentes inquiry, advanced a proposal which would require the pension system itself to address the problem and provide at least a partial solution. This proposal was that it be legislatively required that interest earnings in excess of a specific rate on pension plan assets deemed to be attributable to the pension benefits of retired employees and the vested benefits of terminated employees be used to increase the amount of pensions in payment and also vested pensions during the deferred period.

We do not propose to include in this submission a detailed analysis of each of these proposals for dealing with inflation. We are aware that each of them suffers from technical weaknesses or difficulties. We are also aware that each of them would add significantly to the cost of pensions borne by the whole of society. This cannot be avoided if the relative position of the pensioner is to be improved.

Where the proposals differ is the extent to which government action is the basis for solution and in the distribution of the cost burden as between the beneficiaries or recipients, employers who sponsor pension plans and the general taxpayer. In our view, the preferred approach should be one which places maximum responsibility on the pension system itself and therefore distributes the cost among those who participate in the system--employers with pension plans and employees who participate in the plans. On this basis, our preference is for the legislated excess interest approach along the lines proposed by Cofirentes.

In working out the practical implementation of this approach, we believe that the best method would be for the law to require that pension plan benefits be adjusted regularly, probably each year, by a percentage equal to the excess of some external objective measure of currently available investment rates of return over a fixed benchmark rate. The external measure should be something like the average over the past few years of the yields on long-term government bonds. This would represent a rate which could be earned by practically all pension funds. Thus, if the average yield on government bonds in a given year was 11 per cent, and the benchmark rate was, say, seven per cent, pension benefits would be increased by four per cent in that year.

Mr. Peterson: Is that by practically white collar or by practically all?

Mr. Priestner: By practically all.

The rationale for this legislated excess interest approach is that the same inflation which decreases the purchasing power of pensions has a simultaneous effect of raising interest rates. Because benefits under private pension plans have to be funded, the benefit promises are backed by assets which earn interest and dividends at rates which include a real return to the pension fund as lender or investor, plus a further element to compensate for inflation. The legislated excess interest approach requires that at least a part of this second component be used to adjust pension benefits for the effects of inflation.

Many employers have already taken steps in recent years to adjust pension payments to their pensioners beyond the terms required by their pension plans. I believe the FPI study says it is about 75 per cent that are already doing something on an ad hoc basis. To the extent that they have done so, the legislated excess interest requirement will not represent an additional cost for such employers. Rather, it gives them an opportunity to rationalize the financial planning for what are otherwise ad hoc adjustments, sometimes financed on a pay-as-you-go basis outside the pension plan and sometimes, at least indirectly, by favourable investment experience within the plan.

11:40 a.m.

This is not to suggest that the imposition of the legislated excess interest requirement has no cost implication for the sponsor of a plan. In the commonest type of pension arrangement, the plan sponsor is an employer who promises pension benefits to his employees based on a certain formula, usually either some percentage of the employee's earnings or a flat amount of pension for each year of service. The employees may or may not be required to contribute, but the employer is required to underwrite the cost of the promised benefits over and above any employee contributions.

This means that the employer is at risk for any unfavourable cost experience which may develop, such as unfavourable investment results with the pension plan's assets. Likewise, if the investment experience is favourable, the employer is free to use these favourable results to reduce the contributions to the plan which he would otherwise make.

What actually happens in many cases is that the employer uses at least part of the gains from favourable experience to finance various kinds of benefit increases. The effect of legislated excess interest requirement is to remove some of the element of choice and flexibility in this matter and require that some portion of investment gains be used in a certain way.

Most discussions about the legislated excess interest approach have focused on its application to pensioners who have already retired and are receiving pension. This is the group which can most clearly be seen to be suffering from the effects of inflation on their pensions. However, there is a second group that is suffering in a less visible way--former employees who have terminated participation in a pension plan with a vested right to some fixed amount of deferred pension, usually payable when they reach age 65.

The apparent value of this promise of future benefit declines with progressive inflation during the period of deferment but, as in the pensioners' case, the benefit promise is backed by income-yielding assets in the pension fund. To the extent that investment income on these assets is responsive to inflation, the plan will show a profit on these benefit promises.

The situation is closely analagous to that of the pensioners except that very few plan sponsors have made any sort of voluntary

or ad hoc adjustments in vested benefit. If, as seems likely, the legislated vesting standards are to be tightened, this problem will become increasingly important. We, therefore, support the extension of the legislated excess interest approach to vested benefits as natural and logical. Some advocates of the legislated excess interest approach would go even further and require that it be applied not only to the benefits of retired and terminated employees but also to those who are still actively participating in the pension plan.

They would argue, especially in cases where the pension plan promises a fixed amount of pension, it would be unfair to require that the employer use excess interest earnings on the pension fund assets to adjust the fixed benefits of those who have retired or left employment but not to require comparable adjustments to those who are still working for him. The difficulty with this is that it ignores the fact that active employees, by their continuing economic relationship with the employer, have the means to effect improvements in their pensions which are not available to pensioners and terminated employees.

I would like to stop there because I think we have put all the principles that we have to say on this out front in that part. The rest of the paragraphs dealing with this really expand on the thing.

Basically, the principle is that for those who have lost their economic bargaining power by termination of employment either through retirement or by termination of employment with a vested right, the assets that are attributable to them within the fund should have a fence put around them, a benchmark rate established by some outside measure, possibly an average of government bond yields and the difference between that and an arbitrary rate, say, seven per cent, ought to go to improve those benefits for those people, and such would be reported to them. It would become a matter of entitlement rather than of ad hoc, Santa Claus-type adjustments.

Mr. Peterson: I am very attracted to your proposal; I really am. As I understand it, most employers are saying, "Please don't do it; we are doing it anyway. But if you do it, do this." Do you imagine there would be a great squawk from the employers, the plan sponsors, or would they just say, "Okay, that's life, we will get on with it?"

Mr. Priestner: Yes. It depends. The big employer that has been doing it for the pensioner--

Mr. Peterson: You say there is no additional cost burden.

Mr. Priestner: There is additional cost. There is always additional cost, but he at least would have a law saying, "This is what I am going to be forced to do and not to do it when my circumstances permit." He would have to plan for it, provide for it in his funding and so on. To the extent that everybody would be required to do that, it may tighten up the competition a little bit. He is paying for it now and the guy is competing against

it. "I am not going to do that, to heck with it." So some of them would have the view that, "Okay, everybody is in the same ball game now, and this is a cost that everybody is going to have to reckon with."

The smaller employer who is having tough economic times may cry the loudest about this. The cries may not come from the big employers who have been doing it anyway in some form or another. I don't know, Dave, whether you share that view.

Mr. Peterson: You operate on the premise that the funds are going to go roughly with inflation. That is your operating premise and that hasn't always been the experience.

Mr. Priestner: That is correct.

Mr. Peterson: That doesn't take into account the effects of the lag time, i.e., the 1973-74 experience. If interest rates plunge, you are going to find a hell of a pile of excess earnings in some of these funds in the next couple of years. If they continue to go up, you are going to see a different kind of problem. In your judgement that is a self-regulating or self-averaging proposition and don't worry about it.

Mr. Priestner: I don't think it is as simple as that. I don't think it is going to take care of itself necessarily. The time horizon is pretty long, though. I think over time the odds of inflation and interest rates bearing a relationship with each other--

Mr. Peterson: And fund performance, which is not necessarily related to either one of those.

Mr. Priestner: Yes, that is true.

Mr. Peterson: There is some line in here where you say practically all funds will do it. I mean there are some good ones and some bad ones.

Mr. Priestner: I think all funds should have the ability to do it. If they select certain types of securities to make it safe that this kind of return will be met, that is comparable to an average on government funds, and they can opt to do that. Others will say, "No. We prefer a little more risk taking than that. We will take a different blend of securities or a different quality of securities." But then they should do that too. As long as it is within the confines of the law, let them take a calculated risk if that suits their style and their personality.

Mr. Peterson: There has been the argument presented that this would alter the mentality of fund managers, make them a little more conservative. Have you ever heard that?

Mr. Brown: Could I comment on that? Some versions of this idea revolve around the actual earnings of the fund rather than picking out some external rate like the average yield on government bonds. In the discussions that I have heard about this question, I think the mentality of the fund manager then becomes

very important because what the pensioner is going to get depends on how his decisions turn out. I think if you go the route we are suggesting, the mentality of the fund manager and the kinds of strategies that he and the plan sponsor between them think are desirable are then their business. If they want to take a higher risk profile and go for greater returns or go the other way, that is their business, but there will be no direct effect on the way the system serves the benefits of the pensioner.

Mr. Peterson: Except if they go the other way you are not going to have (inaudible) some of these improvements. Is that not correct?

Mr. Brown: That, again, is going to be the sponsor's problem.

Mr. Priestner: They would still be required to pay as if they had.

Mr. Brown: That's right. The other difficulty with tying it to actual performance is that the pensioner who doesn't maybe have a very long time horizon is obliged to deal with the short-term periods where the thing gets out of phase because of the leads and the lags. The employer is really much better able to absorb those and to spread the thing out over a period of time.

11:50 a.m.

Mr. Peterson: Just one last question. is your objection to the inflation tax credit based principally on your philosophy that it is the current contributors' obligation to look after, that the private sector has to handle inflation, or are there any other arguments that you have?

Mr. Brown: There are nine commissioners, and I think there are nine different objections to that.

Mr. Peterson: But there is universal objection to it.

Mr. Brown: I'm not even certain about that.

Mr. Peterson: There are nine commissioners. At least one is in favour of it: Mr. (inaudible).

Mr. Brown: That's true. Quite right.

My personal objection is just to the cost of it. It's very costly.

Mr. Peterson: I go back to your other point for a minute. As a plan sponsor, an employer, you said that there is concern that money managers, or fund managers, would behave differently.

I think it's our duty as plan sponsors, if we have to pay the bottom line, to sit down with that money manager and very clearly enunciate what our style is, what our wants are. If our concern is to keep a nice steady-state relationship in the cost of

the pension as a percentage of payroll, for example, we will come up with an investment philosophy entirely different from that of somebody else who says, "All I am concerned about is that the ultimate cost be absolutely low and I can take swings and roundabouts in investment performance."

I think the system ought to accommodate both those points of view. At least in this kind of approach I would have the right to sit down and say, "I am concerned about this aspect, so therefore gear the investments to vehicles that are similar in nature to the outside measurement because that will protect me then against surprises there." I think this suggestion best allows a system to carry on with a variety of styles.

Mr. Gillies: But surely there is a benefit for the employer sponsor if we go to a plan where the excess interest approach is tied to the individual plan performance because then he is not faced with any open-ended expenses and is more in control. But you just do not think that this is adequate.

Mr. Brown: On the other hand, he gets no benefit from a favourable performance. That's what I'm saying. For instance, if his fund is outperforming the outside measurement, under our proposal he has got some of that, either to reduce his costs or to apply it to other benefit improvements. If it's all spoken for just in benefits, he really doesn't have that much motivation to improve the fund.

Mr. Priestner: Not only that, if Stelco happens to win big, and their particular investment performance is better than Westinghouse's, the employer is in the position of asking "Why were we worse than--?" That kind of thing is difficult to do. It's always difficult to do. There's always somebody who does better and people who do worse than you.

Pegging it to something on the outside and giving all parties an incentive to have performance over and above and beyond that and allowing them separate styles, I think, are the keys of this approach.

Mr. Brown: There are some other technical things. If you start gearing it to the actual performance at the front, then you start getting into the nitty-gritty. How do you measure that? How do you value the assets? Do you force everybody to do all those things in the same way? You are putting a lot of straitjackets on to accomplish something that we think you could do without all the straitjackets in this more direct way.

Mr. Gillies: I think we have a selling job here, though, because I would think just superficially that it would sound preferable to most employers to have the performance of their own fund as a yardstick as opposed, say, to using an index approach tied to the CPI or something of this sort.

Mr. Brown: I think the arguments are there. There are pretty good reasons from their point of view for doing it that way.

Mr. Peterson: This leads me to another totally unrelated question. Why were you guys so mean to Ford? They were in here yesterday crying.

Mr. Priestner: You saw me drive up in an Oldsmobile? Is that what you are saying? What do you mean, "Why are we mean to Ford?"

Mr. Peterson: You are familiar with their proposal, in which they came to the commission, I gather, and wanted to apply actuarial gains to past service. It's not actually related--it's semi-related--to what we are talking about. The commission refused.

Mr. Brown: As I recall the case, they came twice and we refused both times. The regulations say now that an experience gain can be used to reduced either an initial unfunded liability or current service payments. That's what the law is. Was there a case made by Ford that suggested that we ought to change that law? The first time was, I think, prior to the royal commission's report, and there was a lot of reason to wait and see and so on. The second time was after. In both of those they were talking about a flat-rate benefit plan.

Our view was not directed at Ford but in general with that whole subject area that there was nothing to suggest that now is the time to be relaxing funding requirements for flat-rate benefit plans. Therefore, the answer was, "That's the law. Sorry."

Mr. Peterson: I take it you are not at all sympathetic to a change of the law in that respect?

Mr. Brown: Not for the weakening of funding requirements for flat-rate benefit plans. In general, I think the commission's answer to that would be no.

Mr. Priestner: There are a lot of people saying, "Strengthen them, shorten the periods," and so on and so forth. But it had nothing to do with Ford.

Mr. Brown: If you consider the analogy of a company with a new plan, past service liabilities, I don't know how they would then get the gains that appeared in Ford. But to suggest that they not be required to continue the funding of the original obligation just because they had some good experience goes contrary to the whole thrust of what the legislation has done in the past and what we feel the direction ought to be in the future.

Mr. Gillies: Would it be overstating it to say that you are really trying to eliminate gambling, if you will? "I did really well at the table at this point so I am going to take my money that otherwise would go into the fund and do something else with it." Is that what you are getting at? It seems like a very small-c conservative approach to the question.

Mr. Priestner: I've never thought of it that way. Let me tell you the way I think of it. I'm not recommending changing the funding laws or anything else because there is a whole

international competitive question. But the way a heck of a lot of plans operate is that every three years, either through the bargaining process or through unilateral change, they put a new addition on the house. They mortgage it over 15 years and then they add another one three years later.

From a company sponsor point of view I guess I wish that doing it that way wouldn't say, "Well, the cost of pensions this year is going to be seven per cent of payroll and 20 years from now 15 per cent of payroll." I would like to make sure that each widget of production gets attached to the proper amount of cost.

To weaken that in any way is, to me, counter to where the whole world ought to be going in this thing. To suggest any change from where we are now, which is kind of a maximum 15-year deal--the US is 30, Dave?

Mr. Brown: Yes.

Mr. Priestner: --is not an urgent issue and it's not a good thing to do from the point of view of international competitiveness. I don't think we ought to be volunteering to change our present law to weaken it.

Mr. Cureatz: I'm having difficulty with your suggestion that it's weakening it. The guarantee is there anyway.

Mr. Priestner: The guarantee depends on a lot of things, continuing prosperity of the sponsor.

Mr. Brown: Are you talking about the guarantee fund that would start up on the (inaudible)? I think if Ford decided to close a lot of its operations and triggered the operation of the guarantee fund, the magnitude of the claim that could result from that is far beyond the resources that are likely to be in that fund, and you gentlemen will have the duty, pleasant or otherwise, of deciding whether the taxpayers of Ontario ought to support the situation. I think you would probably be a little happier if you didn't have to do that. I mean it may happen anyway.

The guaranteed fund as a safety net is a bit of a delusion.

Mr. Gillies: So the ideal, as you see it, is full funding, and while in most instances it will not be reached, you do not wish to do anything that detracts from the goal.

Mr. Brown: We want to keep them going towards the goal.

Mr. Priestner: Keep them crawling crablike towards full funding in a way that is reasonable and allows the cost burden to bear some relationship to the economic benefits that the company is getting every year. It may be a relationship with pay or whatever else you want to judge. But to weaken it, which was what Ford was asking, does not seem to be in anybody's best interests. I do not consider it gambling. I do not think they do it that way either.

Mr. Brown: They would like to arrange their affairs, I am sure, in a way which would give them a tax break at the appropriate time for one thing. I do not know whether they have any taxable income these days or not, but if they can pay contributions in at a time when they do have taxable income then, obviously, that is to their advantage. I suspect that was one of the motivations.

Mr. Peterson: A cash flow problem. I gather that is a \$30-million problem in the last couple of years for them and that is a reasonable amount of money even for Ford. That is their argument, but I appreciate having your point of view.

Mr. Cureatz: It is interesting that you say that. When they came in yesterday it was indicated that it was more of a philosophical approach that one was maybe no worse than the other.

Mr. Brown: If they do not put the money into the fund, it is going to be in a weaker position than if they do put the money in the fund. Maybe that is philosophical--

Mr. Gillies: It is pretty straightforward.

Mr. Brown: --but it is also the question of whether it is strengthening or weakening the fund.

Mr. Priestner: Now you are right at cash flow as far as the fund is concerned. I would love to have had heard Wells discourse on that.

Mr. Bentley: I weaseled out on that one.

Mr. Chairman: I think what they were saying, as I gathered it, is "We are a little more successful than we had to be, and if we were not as successful these were our obligations, but now that we are more successful you are penalizing success. You are making us do something extra."

Mr. Priestner: No, not extra. We are allowing them to eliminate the current service payment which takes what they would have paid in a normal year had they not been successful and down quite a bit to start with. We are allowing them to accredit that for the next year too.

Mr. Bentley: Against the unfunded liability and they can recompute it if they so choose.

Mr. Priestner: It is just taking a holiday from a string of mortgage payments, if you will.

Mr. Peterson: I am not a very smart man but I made more money than Ford and GM combined last year. Maybe that is one of the problems.

Mr. Brandt: You are humble too.

Mr. Chairman: Are there any further questions on this subject matter? It is one to which the committee must give very

serious consideration. There are a number of options in the options suggested here. It certainly has sounded sensible in the past to me and still sounds sensible, but there are there any further questions from committee members in regard to this? If not, then we can proceed to the next subject matter. It is the new topic of funding solvency, if I am not mistaken.

Mr. Priestner: With your permission, Mr. Chairman, I would like to ask David to highlight the funding and solvency sections for us.

Mr. Cousens: Mr. Chairman, would he mind? It is now the hour of 12.

Mr. Chairman: As a matter of fact, I guess I should not have suggested getting into a new topic. I did, in fact, hear your stomach rumbling, Mr. Cousens.

Mr. Cousens: That was John Williams.

Mr. Chairman: If it an appropriate time, and I guess it is, we could recess for lunch and resume at two o'clock.

The committee recessed at 12:05 p.m.

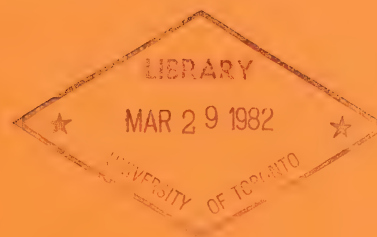
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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

WEDNESDAY, SEPTEMBER 2, 1981

Afternoon Sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk pro tem: Arnott, D.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Pensions Commission of Ontario:

Priestner, E.B., Vice-President Operations, Westinghouse Canada Inc.

Brown, M.D.R., President, Eckler, Brown, Segal & Company Limited

Milling, Gordon, Labour Economist

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Wednesday, September 2, 1981

The committee resumed at 2:14 p.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: Gentlemen, I see a quorum. We might get started with the subject of funding and solvency. We are not going to resolve it in 10 minutes, so maybe we had better get under way.

Mr. Cureatz: Mr. Chairman, just before you do that, I am wondering if Rick Jennings might make a note in terms of our discussion, just prior to lunch, with regard to the Ford situation, and somewhere in the report make some kind of recommendation, proposal, compromise or strong suggestion that the commission should, in their best efforts, try to make suitable arrangements with, in this case, Ford, or whatever other company would happen to have similar problems, to accommodate them.

Mr. Chairman: With a great deal of empathy and understanding, I would suggest, Mr. Cureatz, that committee members will be responsible for the draft report. If you have a particular position in regard to the Ford Motor Company, I am sure that when we discuss the subject matter of an interim report, you can raise the matter at that time.

Mr. Cureatz: That's fine. I am just bringing it to our assistant's attention.

Mr. Chairman: The reason I raise that--and it is unfortunate that there are not more members here at the moment--is I do not think it is proper for staff to be taking instructions from individual members of the committee in connection with any particular area. I think the full committee should instruct staff. That would be my way of carrying on.

Mr. Mackenzie: I think it is a more fundamental problem too, Mr. Chairman. I have strong feelings that if there are specific recommendations to make that refer to the interim report, fine. But to try to proceed on one individual case that the board has been dealing with, I don't think is really our role.

Mr. Cousens: I concur with that very much.

Mr. Chairman: Yes. I appreciated that problem was implicit in Mr. Cureatz' recommendation. I think we will just leave it at that. I am sure the committee can discuss that overall situation because it is an example of what I guess could happen in other cases as well.

Gentlemen, if you would like to get on to funding insolvency, I think we are all interested in that.

Mr. Brown: Thank you, Mr. Chairman. This probably won't take us more than 10 minutes.

The royal commission's report contains 16 recommendations dealing with various aspects of funding. That is one of the pension commission's main responsibilities, so we have some thoughts and comments about those recommendations. We have grouped them into three general categories.

The first category is along the lines that actuarial assumptions and methods should be prescribed in the law or in the regulations instead of by reference to usage and practice within the actuarial profession. The second group of recommendations deals with certain specific techniques or methods which are now in use or permitted and suggests that some of them should be prohibited or restricted. We mention some examples. The third category of recommendations revolves around a concern with the funded status of a certain type of plan, on which we have already had some discussion this morning, the flat benefit plans with frequent benefit improvements by negotiation or otherwise.

Our general reaction is that we subscribe to the first group of recommendations, that is, the assumptions and methods should be clearly seen to be the prerogative of the regulator and the legislator. The public interest in the adequacy of pension funding is such that the control of the standards should clearly be there and not delegated, say, to the actuarial profession.

However, we thought we should mention to you--I know you had the Canadian Institute of Actuaries in here recently and that this was a subject you discussed with them--that the pension commission has exercised a considerable degree of informal control over actuarial assumptions and methods. For that reason, we are not all that clear that what the royal commission is recommending would really, in the end, be very different from the present situation. It may not be spelled out in the law and regulations quite as explicitly as the royal commission would perhaps have it, but in fact there is a degree of guidance exercised by the commission now.

Mr. Mackenzie: Can I just ask you this? We have had the actuarial association before us. Is there really a wide difference in the methods or assumptions or any radical variations in the practices the profession uses?

Mr. Brown: I think the short answer to that would be that there can be pretty wide divergence in the answers that you get back for two reasons. There are two kinds of methods and, depending on which one you use, you get quite different numbers.

Mr. Mackenzie: You are talking about a conservative or a more liberal assumption?

Mr. Brown: When I talk about methods, do you really look at the plan as something where you are going to provide on some stable basis on a very long term for the benefits that are accruing over the future, or do you just look at the liability for the benefits that have accrued so far and take the next little bite for, say, next year and measure your costs that way? Depending on which way you approach it, you get quite different answers.

Both types of methods are in common use. Many actuaries use both types and both types have been considered acceptable by the commission. Indeed, the royal commission apparently is comfortable with the continuing freedom to choose to go either way.

As far as assumptions go, there is some variation, but I would say perhaps less than people think. The FEI surveys and some surveys that the pension commission itself has done really do not convince me that there is such a very wide variation in the assumptions that are used. They are no wider probably than the variations in the actual experience. The funds do not all have the same rates of return, for example.

Mr. Mackenzie: Is the state of the art such that you really can be that accurate on a long-term projection?

Mr. Brown: That is a very good question. The nature of the exercise, after all, is to try to keep pointing the funding of the plan towards the long-term end result. It is no use in pretending that there are going to be accurate forecasts on a short-term, year-to-year basis of what the costs are.

Costs do not actually show up until years from now. What we are trying to do is make reasonable estimates and keep adjusting them. That is the reason why you have to keep reviewing the funded status under the law at least every three years, and there are provision in the laws and regulations for correctional measures to be taken if the thing starts to get off track.

So the refinements and the appearance of very exact forecasting that some people seem to be advocating do not seem to me to be an appropriate requirement.

Mr. Chairman: What problems do you encounter now in this area? As I understand it, actuaries have their own ethics and code and disciplinary body. They have a counterpart to what is generally acceptable accounting principles in terms of their role, again, as I understand it. I am just wondering what is lacking in terms of the internal discipline or regulation within that profession that has to be addressed by government mandate?

Mr. Brown: I do not know whether I am the best person to answer that question or not.

Mr. Chairman: You are the actuary, are you not, Mr. Brown?

Mr. Brown: Yes, I am. That is right.

Mr. Chairman: I understand you have held some important posts in terms of the--

Mr. Brown: I have views but I am not sure that they are necessarily the views of the whole commission.

Mr. Chairman: Could you extricate yourself from the commission for the moment, and even from your colleagues in your profession, and give us your view? If that is embarrassing, then--

Mr. Brown: No, I am not embarrassed. I guess there are two things. I am relatively recent on the commission. I think that in the past there have been some problems, and they tended to occur when plan sponsors were undergoing very severe experience, such as the problems back earlier in the decade of the 70s when the financial markets were giving everybody fits and salary and wage levels were keeping pace with inflation.

Many pension plan sponsors found themselves under rather distressing situations as far as the funding of their plans went. My general impression is that the actuary found himself under a lot of pressure in many cases to try to help the plan sponsor, to help relieve the distress on the plan sponsor which was a difficult position to be in. As a result, the pension commission found itself up against requests that they really felt were not justifiable.

At that time, there were no guidelines or standards or recommendations within the actuarial profession to deal with this kind of question. Those have now, after much discussion and debate within the profession, been approved by the institute.

The experience with them is still quite limited. My impression at the moment, or during the time that I have been on the commission, is that frequency of supervisory problems with the actuarial profession has diminished. I think that may be temporary because this is partly due to the fact that the financial markets have been so buoyant and the plan sponsor is not putting the actuary under the same kind of pressure to help him.

Mr. Mackenzie: The actuaries are not being blamed at the moment, but when things get tough again they may be.

Mr. Chairman: What you are telling me is that economic conditions dictate the degree of creativity or resourcefulness on the part of an actuary?

Mr. Brandt: Are you talking about fudging the figures, Mr. Chairman?

Mr. Chairman: No. It seems to me that you have to tax your imagination under certain economic circumstances.

Mr. Brown: I think the pressures are much greater when things are not going well that way. I also think that how well we can rely on recommendations and standards which the profession has now developed has yet to be determined. I'm optimistic that the profession will respond and that the commission can, through the professional body, see to it that satisfactory funding levels are obtained and appropriate actuarial bases are used in valuations.

Mr. Chairman: Are you suggesting that until that is done there may be a need for external regulation?

Mr. Brown: What we have now in regulations is a rather peculiar section which says that if the report is prepared on a basis which is not satisfactory to the pension commission it shall be amended so it will be satisfactory. The only measure for its

being satisfactory is a sort of general reference to the common uses within the actuarial profession. There has been some difficulty in applying that yardstick until we had these recently formulated recommendations. I think the royal commission saw a need to place the authority and the responsibility squarely in the hands of the regulators so that the several recommendations they make are all applied. They want to do several things. That's one of the things they want to do.

They also think, and we say it in our submission here, that it would serve the system and everybody if there were less variation in the way things are done. There is a tremendous amount of confusion because of the variety of methods that are used and the appearance that the actuaries can juggle around and come up with any answer that would suit the plan as far as (inaudible).

Mr. Chairman: Is it your experience that there is a lot of inconsistency at present?

Mr. Brown: I would not say so, no. I think that part of the problem is terminological. Everybody has got his own name for what he does. But in fact if you get down and look at what they've done there's much less variation. Even the royal commission's own recommendations still encompass quite a variety of methods. So this part of the system, in short, is working reasonably well. I am not persuaded that this is an area of major concern.

Mr. Chairman: There seems to be some potential for flexibility at present.

Mr. Brown: That's right.

Mr. Chairman: I'm just wondering if, when you start to mandate, whether you narrow that and whether you may do more harm than good. I don't know.

Mr. Brown: The concern of the commission is solvency. The reason we take an interest in the funding of a plan is to make sure that it meets some minimum level. If the plan's sponsor, for his own reasons--for financial planning or for getting stability into his contribution rates, for all kinds of perfectly good reasons--wants to arrange his funding program at a higher level than is absolutely necessary to maintain that solvency level, if you want to describe it that way, although that's a kind of loaded word, then I don't see any reason why the Pension Benefits Act or the commission should interfere with his desire to do that. But that contemplates the possibility that he may not use some minimum kind of approach in which, in turn, he would have to have some flexibility.

Mr. Chairman: It's something that, I guess, we are going to have to wrestle with. It will depend, I suppose, too, on how much flexibility you want to maintain at the commission level, if that's the regulatory body, or at a directorate level. There may be a need for some elbow room there.

Again, I'm speaking of the layman. I'm looking at the science. If it's a science. I suppose it's a very difficult subject. Sometimes I think it's as astrology is to astronomy. I don't know how inflexible we should become.

Mr. Mackenzie: I think we just want to know that everyone is operating by the same rules.

2:30 p.m.

Mr. Chairman: Yes, I can see that. I certainly would think there would have to be some benchmarks.

Mr. Brown: I would vary your analogy a little bit. It is like astronomy in its primitive days. We can't see that accurately or that far yet, but we are trying to go in the direction that we think the stars are out there. We may get some surprises when we refine the measurements a little bit or get closer to the objective.

Mr. Chairman: I was speaking as a layman, Mr. Brown. I am sorry to interrupt you on that point but we have had the actuaries here. It seemed to me that we weren't overly disturbed in terms of the professionalism, if I can put it that way, of that group of people. While we can appreciate the need for uniformity in terms of standards and applying the same rules, at the same time it was a question of how far a government would intrude itself into regulating that particular discipline.

Mr. Williams: As I understand it, in the States the actuaries have to certify their assumptions when they release the program it. I presume that means nothing more than that they have to give an actuarial opinion that has their certificate of endorsement on it, just like a lawyer would give a legal opinion or something like that. Or is there something more involved? How would that differ from, say, what would be required if this recommendation one was acted upon and regulations were prescribed?

Mr. Brown: I do not practise in the US, so I am not 100 per cent familiar with the requirements under ERISA. But, as I understand it, the one major difference in the actuary's task down there is that he is supposed to use a best estimate basis. In other words, he is not to be either conservative or liberal. He is to try to use a basis which represents his best estimate of each particular factor.

The kind of certificate that the actuary signs in a valuation submitted to the pension commission is for two purposes; that is just a point I wanted to make as well. The income tax people are also interested in this whole subject area.

The certificate that he signs there will simply say that the minimum payments that are required under the pension benefits to keep the plan on side with the contribution requirements under the Pension Benefits Act are thus and so. Under the new recommendations, he is also required to give his opinion that the assumptions are adequate and appropriate and that the methods are in accordance with generally accepted actuarial practice. Then he has to sign that. If he is consciously saying that they are adequate and appropriate, I think he is making a fairly strong statement. It is a bit stronger than his counterpart's in the United States.

The interest of the tax department--this sort of goes back to the chairman's remarks a few minutes ago--is that the client sponsor not be permitted to abuse the tax privilege by putting in more money than really needs to be there because it means a tax deduction on the contributions. In some sense this is going in the other direction; we are looking at it from a direction different from the solvency concern or the benefit security concern of the pension commission.

The tax department have now made it explicit that they want to see the same certificate that goes to the pension commission. They just want one valuation for both purposes. This in itself tends, if you like, to balance the actuary's approach to the whole thing. He has to be able to support the requirements that the money go in, and he also has to be able to justify that it is enough, in his judgement, to fund the benefit.

Mr. Williams: But to the best of your knowledge, the method of certifying in the States does not substantially differ from from what is being done here?

Mr. Brown: Not to the best of my knowledge but, as I say, I am really not all that familiar with it.

Mr. Priestner: You can come at the problem from several directions. I don't think the commission has ever been concerned with the professionalism of the actuarial profession. If the commission had a concern as a group, it would be analogous to a building inspector who could have everybody prove to him that this insulation is as good as what is specified in your code. It takes a long time for a layman member of that commission to sort through whether the solvency is being adequately dealt with in this group or the other group. I think a lot of the push for reducing the options available and having better quality comes from an understanding on the part of not only the commission, but the beneficiaries of the plan and everything else so that is a desirable goal on its own, taking nothing away from the professionalism of the actuary.

From the financial analyst's point of view, when he is comparing company A with company B, there can be a big difference in what appears to be future liability, based on various interest assumptions or any other kind of assumptions, so there is a push for standardization, more confinement and so on. Nobody really knows how to do it properly--that is the trouble--because the variables are so large and they are changing so quickly, especially in times of inflation, that to prescribe which ones are acceptable now and say these others aren't would be a task that I wouldn't like to take on.

Mr. Chairman: My concern in a general way was are you creating a potential for dislocation that may be unnecessary, bearing in mind that without suggesting that the pension commissions is arbitrary or dictatorial in any way, they do have the final say? There would surely be a safeguard.

Mr. Brown: I guess really our comment in the commission is that they have the final say now, but it is a question sometimes of appearing to have the final say as well as having it.

In the second group of recommendations, dealing with various methods and techniques, the general thrust of these is a desire for greater precision and consistency in valuations, and that is obviously intended to make the actuary's conclusions more understandable to employees, employers and the public, the point Ted was just making.

This group of recommendations also reflects an explicit attempt to strengthen pension funding, a logical consequence of adopting more accurate methods of estimating future trends and such cost determinants as interest rates, salaries and employee turnover.

We share with the royal commission this desire for greater confidence in the cost basis of pension plans and certainly for methods and assumptions which will make sense to the informed plan member or sponsor. At the same time, it must be observed that no great improvement in the accuracy of pension costing can be expected so long as many of the cost determinants persist in behaving in erratic and unpredictable ways over the short term. Since inaccuracy is inevitable, the actuarial function of necessity involves the use of various allowances and assumptions which are not easily explained to the lay person, but nevertheless succeed, as a rule, in keeping the plan solvent from one valuation to the next.

These realities, we believe, are recognized by the royal commission, and its recommendations in effect would leave to the actuary much of the latitude that is currently exercised. It remains to consider carefully whether the several types of restriction advocated in the report would be productive in practice. In that connection we can only say that any more specific comment would require further study, that is, in addition to the continuous monitoring of funding methods and techniques that constitute much of the work of the pension commission and its staff.

The third and most difficult group of recommendations on funding deals with the royal commission's concern that the minimum funding level for past service benefit increases in flat benefit plans is inadequate. The report is not specific about the weaknesses of the present funding requirements nor about what standards should replace those now provided for all defined benefit plans, but there is a definite concern of the royal commission that comes through there in their recommendations. The fact that they are not more specific may be explained by looking at some of the complexities.

2:40 p.m.

First, the terms of many of these plans are subject to labour-management negotiations. If both parties in bargaining are sufficiently knowledgeable about the methods of determining pension costs and about the benefit security implications of various funding strategies, it might be counterproductive for the legislation to impose any special constraints on the upgrading of benefits.

If the excess interest approach is extended from its application to benefits of pensioners and vested terminated employees to active employees as well, and if the appropriate benchmark interest rate for this purpose is ultimately to be a real rate--let's say three per cent, for instance--in the range of two to four per cent per year, then the eventual impact on employer contributions is very significant and will increase costs very substantially.

The royal commission recommendations were formulated against an assumed background of no government-sponsored plan termination insurance or guarantee fund. Now, with plan termination insurance just recently established in Ontario, it is not clear just what direction ought to be taken by the funding requirements for flat benefit plans. On the one hand, stronger funding may seem less urgent since the guarantee fund will support benefit payments in cases where underfunded plans are terminated. On the other hand, stronger funding requirements may be appropriate in order to prevent undue and unfair reliance on the guarantee fund, which is supported by other plan sponsors and by the taxpayers in general.

To sum up, we view the question of special funding requirements for flat benefit plans as an important and complex one, but that some other areas of reform have higher priority. This is partly because some of these other matters can be dealt with immediately and partly because further technical research is needed to find the best solution to the flat benefit funding problem. In other words, the royal commission does not really come up with any pat answers on this. We do not have any either, but we think there is some work to be done and some better answers can be found than we are using right now.

Mr. Williams: Could you elaborate a bit on plan termination insurance that has recently been set up, how comprehensive that is?

Mr. Brown: Its comprehensiveness in terms of what plans are covered?

Mr. Williams: Plan termination insurance is what I am talking about.

Mr. Brown: The plan termination insurance coverage applies to any plan which has benefits for employees in Ontario--they may have employees elsewhere--and which provides a defined benefit, rather than a money purchase type of plan. With some exceptions that are to be spelled out by regulation, and the regulations have not yet been published, it is understood that probably the public sector employer plans, which are really not subject in any material way to this kind of risk, and the multi-employer plans, which are both less at risk than the typical single employer and also much messier to deal with if you try to apply this concept to them, will likely be exempted. Every other plan that covers Ontario employees with defined benefits will be included in the coverage of the guarantee fund.

Mr. Williams: Again I am using the system in the States for comparison purposes. I am talking about private plans with

private corporations. I understand that those corporations are liable for their own funded guarantee benefits up to 30 per cent of their net worth; after that, the plan termination fund picks up the balance. How does that compare?

Mr. Brown: I think your understanding of the American Pension Benefit Guarantee Corporation agrees with what my understanding is. The concept is somewhat different in the Ontario legislation. There the first presumption, if a plan is terminated, is that the employer is not necessarily going out of business. He may close a plant down but continue the business somewhere else. In that case, the legislation now imposes on him an obligation to continue the funding of benefits for employees who are entitled to vested benefits in that plan.

If he closes down a plant in one part of Ontario and starts up somewhere else or continues the operation somewhere else, he has to make a determination of what unfunded liabilities there may be when that plan winds up with respect to benefits that are vested under the plan--not just the ones that may be guaranteed under the guarantee part of the legislation but any other benefits that are vested to which the employees that are affected by the closing are entitled. He will have to keep on paying money into that plan even though the plan itself has been terminated.

In the case where the employer dies or goes bankrupt, or if he really does go out of business, then the guarantee fund comes into operation, but not until then. As long as the employer survives in some form, he can continue funding. That's his first obligation. He doesn't have to do that in a lump sum when the plan terminates. There will be a period of time allowed, up to 10 years, for him to complete the funding of any provision that's there.

That's the big difference between the Ontario law and the American law. The American law requires a termination of this deficiency at the time the plan terminates, and it creates a lien against the employer's assets for up to as much as 30 per cent of his net worth. Really it attempts to require that amount to be paid in right then if the employer has sufficient assets to do it. There is no continuing funding concept at all. If he is not able to meet the lump-sum requirement at the time the plan terminates, then their guarantee fund comes into operation, and it involves them in having to look at the employer's net worth in every case where a plan terminates. We are hoping we will not get into that, particularly if he can't afford it.

If the employer does go out of business, and the possibility arises then that the guarantee fund will come into play, then there is a lien on the assets of the employer. I don't think it's really a priority. As I understand it, it amounts to putting the guarantee corporation in line with other unsecured creditors of the employer. It's unlikely that the guarantee fund will recover very much money in most of those cases. If the employer goes bankrupt, the degree of preference given to the guarantee fund is relatively low.

Mr. Chairman: You would need an amendment to the federal Bankruptcy Act, would you not, to give it some priority or preferential treatment?

Mr. Brown: I think that's correct. I don't know if even then it could be done.

Mr. Chairman: Certainly as I understand the federal jurisdiction it would have to come from that quarter rather than the province trying to (inaudible) the preferential position, which means that all in all it is (inaudible) than anything else. It doesn't provide any security. I suppose it's notice of a claim.

Mr. Brown: It's almost a formality, I suppose. If you are going to fall back on a government-operated guarantee plan to make good somebody's deficiencies, then there has to be at least an attempt to make a claim against the employer's assets in that case to try to cover it. But the cases that we are talking about are ones where most of them have gone into bankruptcy. We haven't had one yet, incidentally. We're crossing our fingers. In most cases of bankruptcy I don't think the application of this lien would have any meaning at all.

Mr. Brandt: On this insurance fund that you are talking about, Mr. Brown, did this come after the Prestolite situation in Sarnia? Do you happen to be familiar with that particular case?

Mr. Brown: Yes, we have some familiarity with that case.

Mr. Brandt: I expect the example that you gave was, I think, a rather specific example of what happened in the instance of Prestolite, where the company moved an unfunded liability and then--

Mr. Brown: My understanding of the origin of the legislation is that it had to do with a concern about plant closings, of which there were quite a few over a period of a year or two, and some of which, like the Prestolite situation, were very messy situations as far as the winding up of their pension plan was concerned.

There was particular concern in the case of multinational or multibranch plant operations that the employer could just fold up his operation and walk away from his pension obligations to these people.

The guarantee fund was an attempt to find a mechanism to deal with that problem. Whether, in fact, it will be effective in dealing with it is another matter. If you get a very large bankruptcy, for example, if Massey were to go,--

Mr. Brandt: Phil Gillies just had a mild heart attack.

Mr. Brown: --we would have to collect premiums in that fund for years and years before we would ever have enough money to begin addressing the guaranteed liabilities for the pension plans that they operate.

Mr. Brandt: In essence, though, the kind of plan that is in place now would have built in a safeguard against the sort of situation that happened with Prestolite, with an unfunded liability that left the workers really without any protection, insofar as their pensions were concerned.

Mr. Brown: Beyond whatever assets happened to be in the pension fund.

Mr. Chairman: If this so-called lien is more apparent than real--and it strikes me that it is--then if it could be made effective in terms of establishing a priority, if not a secured position, that in itself might again create more harm than good. I am thinking of most of the organizations or corporations that would never experience a problem but may have to be concerned in terms of their own financing of determining what that outstanding liability might be.

Mr. Brown: That is one of the things that there has been a lot of concern about in the United States. The banks and other lending organizations are conscious of the existence of this potential lien by the Pension Benefits Guarantee Corporation against some company that may want to borrow from them. They are quite concerned about how it affects the security of their loan.

I do not know whether there will be comparable concern about Ontario companies or not, but I would not think so. I do not think we are talking about--

Mr. Chairman: Not at present.

Mr. Brown: Not with the laws we have here.

Mr. Chairman: No, but if it was made more effective through federal legislation--I am suggesting, for example, through the Bankruptcy Act--then we could create a bigger problem than we solve.

Mr. Priestner: I agree with you. The type of company that is likely to need this guarantee protection is exactly the one that would have to pay more for their funding, for a day-to-day business, because there is this big question mark that hitherto was down below the financial statements in a footnote and that never became a claim against the corporation. They knew exactly what it was they were lending money--what security was securing their loans. Now there is this undefined thing, over which they have very little day to day operating control, coming in and making a claim ahead of them. All it would do is shoot up interest rates and/or prevent them from borrowing at all. That might trigger the old fund itself, so it is a very complex question.

The other thing I think we ought to keep in mind, even though the regulations are not out or published or even written, is that there is just no relationship at all between the amount of premiums you could collect without hurting the whole system, compared to one major claim.

You can collect and collect and collect and get yourself \$1.5 million or \$2 million and then have the hundredth largest company in Canada with an unfunded liability of \$60 million or \$70 million. That is the problem.

Mr. Gillies: I am sure you are very familiar with the situation of a large company in my riding. I will not say which one because it is not a matter of public record, but it was exactly the same thing. They were going through a refinancing a couple of months ago. The banks became very nervous because they knew that there was a pecking order and the pension fund would get in ahead of them. There was some manoeuvring at this end to try to take care of those fears.

I think it is a legitimate problem. In a time of perhaps financial downturn, this could become an increasing problem for an increasing number of companies.

Mr. Prestner: I think our bottom line position is that for a lot of reasons let's not rely on that as a panacea for relaxing all of the rules that have held us together for the last 18 years.

Mr. Gillies: Certainly not, but I quite concur with my colleague when he says that it could pose a problem to tighten those rules up too much.

Mr. Mackenzie: Would the lien in respect to the Prestolite plant that has been referred to here have effectively stopped--not that I think there was that much money involved--the disposal of the equipment that came out of that plant and went across the bridge to the other side?

Mr. Brown: My recollection of the facts in the Prestolite case is that the company had other operations in Ontario. In fact, they are still in business, so the lien in that sense would not have come into play. What would have happened is if the law had been in place at the time they closed the plant in Sarnia, there would have been an obligation on the company to keep putting money into the plant to cover the unfunded liability for vested benefits. It is perhaps unfortunate because I think that particular case--and perhaps one or two others not too different from it--were the main motives behind putting the guarantee fund in place, and it has a lot of other ramifications.

Mr. Jones: At the very start--I guess it is recommendation one under funding insolvency--you mentioned you would like to see prescribed by law and regulation instead of referring to usage and practice. I believe earlier in the familiarization time that we went through here someone said that they held the view perhaps there was a very vital flexibility when they weren't locked in, as it were, by regulation and by law. Otherwise, they would have found themselves in a lot of cases where they were acting in the best interest of the fund and those receiving the fund, and this ties in with what you were saying in response to these questions.

We had the Institute of Actuaries here with some recommendations that they would like to see for improvement. Is it outside the realm of possibility that they could achieve some guidelines and some ways of evolving them in an effective way that would be short of law and regulation so that we would have the flexibility that apparently has served you well in the past?

Mr. Brown: I think you prefaced your question by "Is it conceivable that." I can answer that, yes.

The kind of problems that the commission finds itself in--and it can be awkward to both the commission and the profession--is with what we might call borderline situations where you are not very happy about the whole thing. You are concerned that the employer might not be very strong, that he is looking for any way to cut his costs to the minimum and so he enlists his actuary to try to help him with his problem. The recommendations and the standards that the profession are laying down may not help us very much with those problems. I think that in those cases it would be very useful for the commission to be able to say, "Look, this just isn't good enough as far as we are concerned," without having to refer it to some other body like the actuarial institute.

Mr. Jones: It came up, and I know that there was some feeling from Mr. Peterson about it. You were saying how apparently it has worked well under Mr. Bentley, but some time in the future the commission may have those laws and regulations. I was just curious whether this was sort of an adamant thing, and I guess when you answered me you were worried that the actuaries would come out on the side of their people and the commission wants to have the law and the regulations there to point to.

3 p.m.

Mr. Brown: I think if it is the kind of dispute that we have had in the past--and I want to say there haven't been many of the kinds of disputes that used to take place during the period of time that I have been on. It is also, I suppose, a pretty direct effect of the kind of inflation that has been going on. I can remember when this legislation was first passed there was an informal guideline that actuaries would not use evaluation interest rates higher than five per cent. Five per cent was considered a pretty liberal assumption in those days.

As the world changed, that has gradually evolved and it has been a sometimes painful process for the commission and for some of the actuaries too. If it weren't for the guidelines that are in place, we might very well defend a much higher evaluation rate or a totally different approach to the problem.

We have had a situation where the commission kind of struggles away with the changing world and yet is supposed to be deferring to the actuarial profession on the problem. I think it would be better from everyone's point of view if the responsibility for dealing with the things was placed squarely in the hands of the commission.

Mr. Priestner: Is that the last of the questions on the funding solvency?

Mr. Chairman: As far as I know. I haven't perceived anyone else wanting to ask a question.

Mr. Priestner: Thank you, Mr. Chairman.

All through the piece today we have been talking about the strong desire, if not need, to have uniformity among all of the various provincial and federal organizations that get involved in the process of regulating pensions in the private sector. I would like Gordon Milling to take us through the last of our four major areas of concern, that is, the uniformity area.

Mr. Milling: The recommendations dealing with uniformity are recommendations 157 to 161 in the royal commission report. We make reference here to the chapter on constitutional issues in volume three of the royal commission report. The principal argument is that the provinces, which have the legislative power to regulate private pension plans, should strive to achieve and maintain a workable degree of uniformity in their approach to this task. Some provinces have not as yet enacted pension benefits legislation and, among those that have, certain significant differences in approach are seen to have developed in the recent past.

What we suggest is that new initiatives are required in order to ensure that necessary changes in pension legislation don't create unnecessary difficulties either for the plan sponsors or for workers whose pension rights are subject to several different laws and regulations.

The present situation is that pension benefits legislation has been enacted in Ontario, Quebec, Alberta, Saskatchewan, Nova Scotia and Manitoba and in the federal jurisdiction. The federal jurisdiction includes the Northwest Territories and the Yukon. The statutes in each case make provision for those jurisdictions having legislation to make certain reciprocal deals for the registration, the audit and inspection of pension plans.

This province is a party to such agreements with all six governments on the strength of the fact that their laws and regulations are, in the words of the reciprocal agreements, similar. The effect of the reciprocal agreements is that a plan with members in more than one of the participating jurisdictions is registered with and supervised by the authority within the jurisdiction having a plurality of the members.

This reference is to section 10(2) of the Pension Benefits Act. In 1974, under this section, the Canadian Association of Pension Supervisory Authorities or, as we generally know it, CAPSA, was formed. This consultative body is broadly responsible for promoting a uniform approach to the regulation of pension plans.

CAPSA is primarily concerned with the operation of the reciprocal agreements. However, it also serves as a forum for discussions of proposed amendments of a substantive nature before such changes actually become government policy. In this latter role, CAPSA's effectiveness is limited by the fact that the CAPSA proceedings do not generally involve policy makers from the several governments. The provinces without pension benefits acts naturally cannot participate directly in these discussions. The members of CAPSA make some effort to keep those provinces reasonably up to date with recent developments.

The royal commission points out in volume III that the goal of uniformity is not to be regarded as so vital that the pursuit of uniformity serves to block necessary changes in the legislation. Some rather important policy differences are now reflected in recent amendments to some provincial acts, and more differences would result if Ontario were to implement, for instance, the vesting and portability measures discussed previously.

What we note here is that the principle should be that if the Legislature determines that the Pension Benefits Act is in urgent need of revision, and both the royal commission and the PCO believe that is so, in that case there can be no question of delaying the changes until all jurisdictions are prepared to move in concert. It is highly desirable, at the same time, that a consensus among the several governments be sought so that the necessary changes may be made, while maintaining at least a workable degree of uniformity.

In recommendation 160, the royal commission proposed that an agency for policy co-ordination be established, that this body operate in parallel with CAPSA, you might say, and that the government of Ontario attempt to pursue the goal of uniformity through direct contact with other governments within the structure of this new agency.

The question of which government might take the initiative in setting up a mechanism for policy co-ordination is of some importance. Here we recall that it was this province that took the necessary first step toward uniform pension legislation in 1964 by inviting other provinces to a conference on portable pension legislation. The conference took place in Toronto on October 16, 1964, and was attended by representatives from all the provinces and also by observers from the federal government.

3:10 p.m.

The conference came to an agreement that a model uniform pension act should be drafted for study. They also agreed to recommend the formation of an interprovincial committee with a secretariat in Toronto to continue studies on portable pension legislation.

The draft legislation was, in fact, prepared within a few weeks and subsequent meetings laid the groundwork for the various pension benefits acts that we have already referred to. The necessary reciprocal agreements followed closely on the heels of the statutes as they came into force. Of course in 1974, as we have already mentioned, CAPSA was set up.

There may be a variety of channels through which the goal of uniform pension legislation might be pursued, and we have to take into account the possibility of some initiative at the federal level. We can simply mention here that it would seem appropriate for the provinces themselves to take the initiative. It also follows from that that the way is open for this province, if it chooses to start a new round of interprovincial consultation on this subject.

Mr. Chairman: I am wondering if at this point we could pause for a moment because the concept here is to create a council at the political level, if I am not mistaken, in addition to CAPSA.

Just musing, I suppose when CAPSA covers only six provinces that a council of ministers responsible for pensions from each of the provinces could enlist those provinces not yet involved in the pension field through CAPSA. If that is the suggestion, it would strike me as a worthwhile one. Am I summing up your thinking as you present it?

Mr. Milling: Yes, Mr. Chairman. I think that is pretty much what we say. We have to recognize that the terms of reference of CAPSA do not include the policy makers simply because the main function of CAPSA is based on the reciprocal deals that have been made among the various authorities. The function, therefore, is primarily one of dovetailing the procedures for the putting into operation of statutes and regulations.

The question of possible changes to legislation is one that has been discussed regularly within CAPSA, but during those discussions the policy makers are just not there. Yes, it would be possible for CAPSA to make one or more CAPSA meetings open to ministers, if that were considered proper for the supervisors so to do.

The royal commission, however, has a valid point here and that is that the precedence has been laid in the past in connection with other kinds of legislation for ministerial conferences. That is probably the way to go.

Mr. Chairman: I think there is ample precedent in other areas. Do you have at the CAPSA meetings observers from provinces without pension commissions?

Mr. Milling: I would have to refer this to our friend Mr. Bentley, I think. It was not any of us who have been at CAPSA meetings.

Mr. Priestner: We are outsiders. Wells only tells us what he wants us to know.

Mr. Chairman: I will address that question to the real authority then.

Mr. Bentley: Historically, ever since the formation of CAPSA, we have invited all other jurisdictions who may not have legislation to send observers or representatives to the CAPSA meetings for two reasons. One is to keep them informed of what we are talking about. The second one, of course, is to get input from them, from their jurisdictions. Yes, this has always been a consistent approach taken by CAPSA. When it comes to a vote, they do not have a vote, unfortunately, but they sure have input, just the same as I do even though I am not a member of CAPSA.

Mr. Peterson: What about the provinces that do not have either a commission or legislation? Is it just whatever goes, goes? Anybody can have whatever they want, no rules? If that is

the case, are there a lot of problems? Maybe it functions all right without it. I do not know. Do they fund them however they feel like doing it or whenever they want to do it?

Mr. Bentley: Do you mean the jurisdictions that have no legislation?

Mr. Peterson: Yes.

Mr. Brown: Can I comment on that?

Mr. Bentley: We get a lot of experience outside of our territory.

Mr. Brown: The only large province that does not have legislation is BC. I was involved in an analysis of some of the statistics on the situation there.

The way life is now, if you are a BC employer, or if you are based in BC but you have employees in Alberta as well, then your plan is registered in Alberta even though you may only have a handful of people there. We have the rather paradoxical situation that the forest industry's plan, which is one of the largest in the country with some 80,000 employees, is registered in the province of Saskatchewan because there happens to be some members of the International Woodworkers who are participating in that large, multi-employer, primarily west coast plan.

My point is that the number of significant pension plans that are not covered or picked up one way or another by the existing legislation is much smaller than you might think from the fact that there are four provinces without legislation. For as soon as they have employees that either come under the federal jurisdiction because they are in one of the areas that they supervise, or they have even a few employees in any province that does have a law, then they get caught in the law of that province.

Mr. Peterson: What about in a case where you did not?

Mr. Brown: There is an uncovered area.

Mr. Peterson: Do they work?

Mr. Brown: Evidently there have not been too many disasters or they would have legislation right now.

Mr. Peterson: Why doesn't BC have any legislation? Is it that they are just too slow, don't care or forgot about it, or is it a conscious decision not to have it?

Mr. Brown: I am not sure about the history. I think it would be fair to say they are actually considering it right now.

Mr. Williams: I understood that they now have draft legislation ready to go.

Mr. Brown: One of the things they are waiting for, incidentally--and I do know this to be the case--is the report of the royal commission to come out.

Mr. Williams: This royal commission report.

Mr. Brown: Yes.

Mr. Peterson: You say in here that ideally we would move in concert on all the provinces, but don't wait too long; if you have to move on the Pension Benefits Act, go ahead and move. I have a couple of questions coming from that.

Do you have any opinion about what is a reasonable time frame? As I see this thing operating--I am not sure about this--we would submit our report to the minister. If the minister likes it, and I do not know whether he will or will not, he could possibly use our report, plus the royal commission's report, having been vetted for the use of this committee, as a working document at least for interprovincial and federal-provincial discussions.

Mr. Chairman: I have a correction there, Mr. Peterson. Our report will go to the Legislature and not to the minister. I am sure the minister would be very interested in it, however.

Mr. Peterson: Well, technically. But the Legislature will not vote on the royal commission's report.

Mr. Chairman: What I am saying is that the report is submitted to the Legislature. The minister responsible in this field, as I understand it, is the Minister of Consumer and Commercial Relations, so I am sure there will be some co-ordination.

Mr. Peterson: But he did not commission the report, which is curious too, isn't it, Mr. Chairman? Anyway, thank you for that appropriate contribution.

3:20 p.m.

What do you feel is a reasonable discussion period on this kind of thing? What is your sense of the urgency of moving Ontario, failing the support of all the provinces as a whole?

Mr. Priestner: Just on these issues that we are addressing here or on any pension issue in the future?

Mr. Peterson: I am going to ask you another question about that in a minute.

Mr. Priestner: For my part, the sooner the better because the debate has gone on extensively and intensively for some time now.

Mr. Peterson: Don't wait for interprovincial agreement?

Mr. Priestner: I think in terms of the question of a policy-making forum available to the various jurisdictions, if such existed today, it would be an ideal vehicle to flow out proposed government policy to now, to sort out where there were major differences or where there were minor differences. It is

awfully important with earlier vesting and other proposals that they fly, to make sure that this mobility of labour that we keep talking about in Canada will really work when it gets down to the administration. If you keep sending people in a multiprovincial kind of employment situation, or even outside employment, with earlier vesting, from one jurisdiction to another, and each has slightly different rules, it is just not going to work.

The chairman made mention of the resiliency of Mr. Bentley and how that causes things to happen, and that Wells may not be superintendent forever. I think that is true. I think you have spent a good part of the last 18 years trying to promote, formally and informally, uniformity to the benefit of Wells.

It seems to me that getting the policy forum working, to sort out what the major from the minor issues are and to concede on the minor ones for the sake of uniformity, is a real priority.

Mr. Williams: I raised the mobility problem yesterday with the witnesses that were here and pointed out that I did not think anyone had really identified to the committee, in percentage terms, just how serious the mobility problem was. The assumption was made by the delegation before us that a program such as PURS just would not work unless all the other provinces got on board. With the high degree of mobility, you would not get the universality and you would not get the comprehensive coverage.

I asked them to determine just how extensive that mobility is and, while the program would not be as effective if it was implemented initially in Ontario and the others did not get on board, at least not right away, why it could not work when you consider that we still have a third of the population here. But no one was able to identify whether that mobility is taking place primarily out of the province or in the province, which I think would have some bearing on the effectiveness of any such program if Ontario went it alone, at least initially.

Mr. Chairman: In responding to that question, you might bear in mind that Quebec is not a part of the Canada pension plan, and although the plans are parallel, they may grow apart. Bearing that in mind and the population of Quebec, and then the concentration of the remaining population in Ontario, I just wanted to put that in that context.

Mr. Williams: And, lastly, that the mobility tends to be towards the industrialized heart of the country rather than out, with Alberta probably being the exception at this time. If there is mobility, it is tending to flow into Ontario from the Maritimes and so on.

Mr. Milling: A rather basic comment should be made at this point. If we are to look at the history over the last 18 years, people like Wells Bentley have helped to make this whole, rather cumbersome system work, and it has been cumbersome in many respects from the point of view of the supervisory authorities themselves.

It's quite likely--at least this is something the committee might consider, might want to gamble on--that regardless of how fast the steps are made towards uniformity, and regardless of how many changes are made in various jurisdictions, this essentially provincial type of legislation can conceivably be made to work one way or another by taking shortcuts perhaps, and having very frequent long-distance phone calls between superintendents in one province and another. This is possible.

Meanwhile, however, the lack of uniformity, the existence of different standards in different jurisdictions, means that quite a few plan sponsors, pension consultants and particularly workers themselves may be tearing their hair out trying to figure out which law covers them and when. This was a major concern of this province back in the early days of the legislation, 1963-1964 and later, and it's certainly a concern of the royal commission.

Mr. Priestner: As an employer, if I've got a guy who's in a province that has a better vesting benefit or a different one or a better benefit with respect to withdrawal rights, and I say, "Come to Ontario, we want you to be our branch manager there, but the plan over here is different," it's another obstacle to the mobility of that worker. It's no different from saying, "Well, come to Ontario, but your housing is going to be three times as expensive as where you are, and we're not going to do anything about it." It's just another problem.

Mr. Chairman: Mr. Williams, perhaps I could point out to you exhibit No. 101, which you have today. It was prepared by Rick Jennings, our research officer. There's a table of the annual interprovincial migrations for 1978-1979 on page three, if you wanted some detail.

Mr. Williams: I haven't got that as yet. It hasn't been brought to my attention. Is this as a result of my questions yesterday?

Mr. Chairman: Yes.

Mr. Williams: I haven't got that exhibit. I'm up to 100. I have got 99 and 100. Oh, I'm sorry. Yes, it's right underneath here.

I think the committee members all recognize that it wouldn't make life easy for the multinational or the national employers that have operations going in different provinces. But because Mercer made such a strong point yesterday that the PURS-type program just would not work, while there has been good progress made in dealing with the uniformity situation regarding rules and regulations (inaudible), and it has been very encouraging the way they have been able to make progress in this area, they said that when you come down to such a fundamentally important thing as something like the PURS program they just didn't see any way that you would ever get the provinces to get together on something like that. This is why I asked whether, if that were the ultimate result, if that pessimistic approach to it proved itself out, the program could operate in isolation in one province like Ontario, which has such a large segment of the population.

Mr. Priestner: I guess it could. That's the answer. It wouldn't operate as effectively. The migration figures are interesting, and they are great too. But what's more important than that is that when you are drafting your plans for your employees it becomes a problem you have to deal with even if it's a theoretical one. You have got to write down on paper what rules are going to apply. Do we have a separate plan in Alberta? Do we have a separate plan in Saskatchewan? Are the rules all going to be different? And that in itself, whether it happens or not, is an up-front kind of problem.

Mr. Brown: The other thing is that if you are looking at the question in the context of PURS, that's a little bit different from looking at it in terms of getting uniform regulation of voluntary private plans. The object of PURS, its principal reason for being, is to get universal coverage, and you have got kind of a peculiar definition of universal coverage if it just operates in one province. It really says it's contradictory, whereas with uniformity in supervisory legislation you are looking for a sufficient degree of uniformity. Every "t" doesn't have to be crossed exactly the same way in every statute, but the major ideas and the major requirements have to be reasonably closely comparable in order for the thing to function properly, which is really quite a different degree of requirement or reason for requirement from the first concept.

Mr. Priestner: Another statistic that is interesting here as well as the migration statistics is that right now I think you said we administer 7,700 Ontario plans. We also administer 1,200 plans on behalf of other jurisdictions?

Mr. Bentley: About 1,200 to 1,400. I forget the exact number.

Mr. Priestner: To the extent that they are all different changes the expertise required in administering on behalf of some other jurisdiction.

Mr. Williams: That is the next point I was going to bring up. Just on this migration matter of mobility, the statistics provided to us by Mr. Jennings, as exhibit 101, really touch on the qualifier put on yesterday. It is quite clear that the majority of the movement is into Ontario. It doesn't necessarily prevail at this given point in time and, in fact, for this one specific time period, 1978-79, there has been a slight movement away from rather than into Ontario, but historically I think it is quite clear that the majority of the movement has been into the province. I think in the longer term that probably will restore itself. I think this is more of an anomaly, given what has been happening in the western provinces--maybe not--but in all likelihood if the industrial base of the country is to remain here, this is where your labour market is. It's as clear as that.

Mr. Priestner: We'll wait to see what effect all the corporate mergers have on that.

Mr. Williams: As I say, the energy issue is one that may shift that in the next decade, but in the long term I suggest it will probably stay here.

In any event, touching on that matter of our administering a lot of these programs, I was coming to that point on page 21 where you point out that the obligation is on the jurisdiction where the plurality of the members are employed. They assume that responsibility. So, in effect--and I am just going to ask you to verify this--Ontario bears the brunt of that as far as assuming that responsibility.

Interjection: And administering the plans.

Mr. Williams: I assume that in the vast majority of cases the plurality of the employees are right here in Ontario.

Mr. Priestner: But you are administering their plans though.

Mr. Bentley: And their acts.

Mr. Williams: Mr. Bentley had mentioned this in some of our earlier hearings. I guess at this point in time we have sufficient computerization to be able to handle it fairly effectively. Is that right or not?

Mr. Bentley: No, not in that area. It is getting there but we are long way from the ultimate.

Mr. Brown: I was thinking back to when the Saskatchewan legislation was amended last year. They gave us a figure on the number of plans that are registered in Ontario that have some Saskatchewan employees in them. My recollection is that it was about 500.

Mr. Bentley: Covering about 9,000 employees located in Saskatchewan. I think the number of plans was around 450 to 500 plans that we currently supervise having employees located in other jurisdictions including Saskatchewan. There are about 9,000 employees in those 500 plans.

Mr. Brandt: Is it always the case that the province that has the largest number of employees administers the plan. Is that standard across the country at the moment?

Mr. Brown: Except for the federal plans.

Mr. Brandt: Yes, excluding them. That would be the case in the situation with Saskatchewan? In all instances, there would be more Ontario employees than Saskatchewan employees with the same company?

Mr. Brown: That's right.

Mr. Chairman: I was asking Mr. Bentley what reciprocity there was in terms of work load placed on the other provinces.

Mr. Bentley: If I recall correctly, and it is about a year since I looked at the statistics, Quebec supervises on behalf of Ontario approximately 600 plans where the plurality is in Quebec and there are employees located in other jurisdictions.

I think Saskatchewan has somewhere in the neighbourhood of 10 or 12 plans where they supervise the plan but there are employees located in other jurisdictions. Altogether I think there are very close to 1,000 plans that are supervised by either Nova Scotia, Quebec, Manitoba, Saskatchewan or Alberta, of which there are employees located in Ontario but the plurality is in one of the other jurisdictions.

I think there are about 55 plans, as I recall, that are supervised by the federal government on our behalf. In other words, there are employees but it is a different kind of agreement. As you recall from the agreements that I gave to you, it is a different agreement with the federal government than we have with the other provinces.

Altogether there are very close to 1,000 plans that are supervised by other jurisdictions but there are employees located in Ontario. The supervisory authority, whichever province it happens to be, supervises on behalf of the Ontario employees using Ontario legislation.

Mr. Brandt: Coming back to the question of reciprocity, what is the other side of the coin? How many do we do on behalf of the other provinces?

Mr. Bentley: I think the last figure Pat gave me was 1,400 and some but I am not positive of that one.

Mr. Brandt: It is not really that--

Mr. Williams: Cost credits--

Mr. Bentley: No, we do it out of the goodness of our heart.

Mr. Peterson: Typical Ontario--

Interjections.

Mr. Peterson: I want to ask you a hypothetical question. Just supposing this committee liked the PURS system unanimously and we all thought it was a wonderful thing, do you think the fact that other provinces were not interested in that should prevent its adoption here? Or do you think one could proceed unilaterally with that?

Mr. Williams: That's the question I asked him earlier when you were talking.

Mr. Peterson: I did not hear that and I apologize.

Mr. Priestner: I do not know whether I want to try that one. My opinions are pretty strong.

Mr. Brown: I guess I have so much trouble with the premise that I--

Mr. Brandt: I might add so do we.

Mr. Peterson: I would ask you to try to get by that. Would that deficiency alone--

Mr. McClellan: To rephrase the question, would the government use its muscle to ram PURS down our throat?

Mr. Brown: In the province of Saskatchewan they have universal medical care. It was the only one at one time. You might take that as a possible precedent.

Mr. Milling: Bringing it little closer to home, Ontario had the only Pension Benefits Act at one time. This act was something like four and a half years in the making. It took almost five years before it came into effect from the time the committee on portable pensions was first established.

The Robarts government did not delay the passage of this act to wait for the other provinces but, as we have pointed out, they took initiative in getting the uniformity machinery rolling. It is hard for us to be specific--I am speaking for myself anyway--about how much difficulty might be created by any one of the measures or any group of measures recommended by the royal commission or that we have recommended here. What is obviously true--this is not just passing a casual opinion but it is a matter of fact--is of course that the big difference between now and 1964 is that the statute is there. All the administrative machinery, except perhaps for PURS and the transfer agency, is in place.

The trained pension commission's staff is in place and in the other provinces there is a pretty well-seasoned bunch of supervisory authorities and various administrators. It is a much different situation so that in most cases most of the changes we are talking about would not take long to put into place if the Legislature decided that they were highly desirable and some moves ought to be made.

3:40 p.m.

Obviously, some would create very great problems with uniformity and some would create almost no problems at all.

Mr. Priestner: What we don't know, of course--and this is where it gets very theoretical--is what the multiprovincial employer does about it. If he says, "I am going to amend my plan to opt out of PURS as such, but have one like it," he may do it right across the country. When that happens we have got many people with a PURS-type benefit who are not in the Ontario jurisdiction and who will come to that day when they are going to have to do something with their collected contributions on termination. If there is no central agency available to them, they are going to have to go into the private sector, or the employers are. It's very difficult to contemplate until you can get a reading of how people are going to behave in the event that a single province moves in that way to a compulsory money-purchase type of arrangement.

Mr. Chairman: It is extremely hypothetical.

Mr. Priestner: It really is. I don't want to contemplate it because all it would do is cause David Brown to have more commissions than he would know what to do with and to rearrange plans to suit it.

Mr. Williams: Yet I'm sure it's not as hypothetical as if it were, say, Prince Edward Island that was going to implement the process compared to Ontario.

Mr. Priestner: No, it isn't. It's a considered opinion of a very august group.

Mr. Peterson: Your boss.

Mr. Priestner: Sometimes.

Mr. Chairman: I guess it's extremely hypothetical. I was not emphasizing so much the possibility of Ontario soon implementing it. Projecting what the spinoff would be is extremely hypothetical.

Mr. Williams: Just on that point, Mr. Chairman, I think it has been made clear from the very beginning of our hearings by Mr. Bentley and others that obviously all the other provinces and the federal authorities as well are sitting back, anxiously waiting to see what direction Ontario is going to move in. But we are not getting any official readout as to whether those who are in the bleachers watching what is happening have a preconceived hostility towards the recommendations of the royal commission, or whether they have taken no position in political circles, or whether there is some sympathy for what the royal commission is recommending. I suppose you're not in a position either to give us any feedback as to what you are hearing in the field, or are you? I don't know.

Mr. Priestner: I don't think so. I think our position has to be officially that if they get a PURS we will administer it. We'll find a way.

Mr. Mackenzie: You could do a pretty good report card on it, and they have done it already. I think what they are really saying is that it's time we showed the decision-making and the leadership and showed them the road we want to go.

Mr. Milling: It would be a reasonable guess, of course, that while the other provinces were waiting for the royal commission report a few months ago, now they are waiting for the report of this committee.

Mr. Williams: Again I just come back to what Mercer was saying yesterday. They almost suggested that it wouldn't fly if the other provinces didn't get on board. I read into their comments, maybe unfairly, that they felt the other provinces weren't even favourably disposed to the possibility of putting this type of plan forward.

Mr. Mackenzie: (inaudible) people before this committee who have been favourably disposed either, except for the trust companies.

Mr. Chairman: As chairman, I would like to touch on this question of the expectations that other jurisdictions have of Ontario. If those expectations are truly there--and I'm speaking to the committee members now--possibly in the new year I would like to touch base with those other jurisdictions on this political level. I think that might be an appropriate course of action. We have been talking about uniformity and decision at the political level.

Mr. Peterson: That all depends on your point of view. You and Ross McClellan should take the committee's view, and we can watch you guys fight about it.

Mr. Chairman: No. I am throwing that out as a thought.

Mr. Priestner: That is consistent with what we are recommending here with respect to how to achieve uniformity. We think there has to be that policy-making level and CAPSA is not a policy-making body.

Mr. Chairman: I certainly don't think Ontario should be aloof in terms of seeking these at the political level.

Mr. Brandt: David perhaps could find time to visit the Yukon in January, Mr. Chairman.

Interjection.

Mr. Chairman: I would be delighted, but I am just throwing that thought out.

Mr. Peterson: The problem with that very seriously, and I have had discussion on that, is this committee has absolutely no influence.

Mr. Chairman: I am sorry?

Mr. Peterson: This committee has absolutely no influence except as its advice is taken by the minister, whether it is Miller or Walker or whoever decides to carry the can on this thing, and I assume Treasury is involved. Obviously, they are going to vet this. This isn't through the committee stage yet. There is another committee of Treasury and all those guys to look at this thing, and then how can we as a committee bargain with Saskatchewan?

Mr. Chairman: It is not a question of bargaining, and I don't want to debate this. You have expressed a point of view, and I would think that there is another point of view.

Mr. Peterson: Whom were you going to meet with?

Mr. Chairman: I don't want to pursue this. I just wanted at this stage--where we seem to be as an Ontario committee assuming a lead role--to throw out the thought that we shouldn't be without some humility and consciousness in terms of other jurisdictions' points of view.

Mr. Williams: In pursuing this concept you are throwing out--setting up the new agency at the political level--what time frames do you see as being the realistic ones? Is it after this committee has made its recommendations, or would you get the thing in place now or get it rolling when there is uncertainty here because we haven't finished the work of this committee?

Mr. Priestner: My view would have been yesterday--

Mr. Williams: Even though we are coming to a new plateau based on what--

Mr. Priestner: My feeling would be that every province, because of the totality of the debate on how to deal with the pension question, has a high level of interest in the jurisdictional question--how it is going to sort itself out--quite apart from the specific recommendations of how to make private pension plans more workable or better, and that the forum that we are talking about could serve other purposes. To have it in existence without this on the immediate agenda wouldn't be harmful as far as I was concerned as a citizen. I think it has been lacking for some time. Wells hasn't been paid for it, but he has been playing a policy role, at least trying to bring the forces together and keep them on track through some skill on his part. I think it ought to be taken not totally from Wells' camp, but to move it into the political level as soon as possible would be my judgement on that.

One other point on the first question, I would just like to reiterate that while the commission hasn't taken a position as a commission on PURS, the recommendations contained in our brief and that were discussed here today, each and every one of them would apply without PURS or stand alone in terms of that.

Mr. Peterson: We haven't addressed it in these discussions, but we could take time to do that.

Mr. Chairman: Are we finished with questions up to this point?

Mr. Mackenzie: Yes. I think it was implicit in some of Wells' comments earlier on in the hearings that if there was ever a time, regardless of our particular points of view, in the overall pension issue to make some changes or reforms or bring some uniformity into the private plans, now is the time to do it. If we are not going to move now, I think we are wasting a hell of a lot of effort.

3:50 p.m.

Mr. Chairman: I think there is some agreement on that, Mr. Mackenzie.

Mr. Priestner: I was going to say the last part of our submission deals with some of the cost implications of some of the recommendations. I do not know whether you want to pursue those, or not. It is up to you, Mr. Chairman.

Mr. Chairman: It certainly is most relevant, and if you care to comment on it, I think it would be appreciated.

Mr. Brown: I would like to preface this by saying that we had the same problem that you are going to have, and that is that we did not have either the time or the resources to really take an exhaustive, careful look at all of the cost implications of some of the proposals that we were looking at, or have put into our submission here, or the ones that you may want to look at.

That is a time-consuming and expensive business, but we thought that it might be helpful to you if we were, particularly on vesting question, to cite some figures from the royal commission's research. Incidentally, there are a couple of typos on page 24 that I find disturbing. I do not think they really mislead you at all, but in the second line of the paragraph at the bottom of page 24, under the heading of "Cost Implications of Legislative Proposals," what we intend to say is, "The proposals contained in this submission have a potential impact on employer pension plan costs," not a political impact. In the very last line of that page where we talk about the degree of variability of the cost impact on, that should say employers, rather than employees.

Subject to those corrections, if I could just direct your attention for a minute to the table on page 25, this gives you at least a very rough idea of the order of magnitude of additional cost to employers that would be involved in changing the 45 and 10 rule to a rule of five-year service, subject to some comments which I will come to in a minute.

The royal commission researchers looked at various types of plans and various levels of turnover within the employee group. You can see that there is a fair amount of variation, depending on those factors, but that the general order of magnitude of the cost is somewhere under one per cent of payroll for that change. That is subject to some fairly significant reservations. One is that these are costs for new employees, aged 25 on entry, and running through to age 65. For any particular plan, the actual cost impact will vary according to its own composition by age and service.

Secondly, the costs do not take account of the legislated excess interest proposal which we have been talking about here, and that interacts with the vesting in a fairly significant way.

Thirdly, the figures do not pinpoint the estimated cost for contributory plans if the employer's minimum cost for a vested employee is 50 per cent of the cost for the vested benefit, which is also one of the royal commission's recommendations and one we support. But if you look at the figures for non-contributory plans, it sort of gives you an upper limit on what the impact would be for the contributory plan.

As for the effects of the legislated excess interest approach, I think we have already made it pretty clear, and I am sure you have heard this from others, that here we are talking about some fairly significant costs. This is where it would really be nice to have the chance to do some more background studies and research on what we are talking about under various circumstances.

By way of illustration, we have included a table down at the bottom of page 26 which shows the value of a vested pension of \$100 per month payable for life to a female when she attains age 65 at various ages now, 30, 40, 50, and 60, calculated first according to a three per cent interest basis, which is sort of typical of what you might call a noninflationary valuation basis, and, secondly, on a seven per cent basis, which is probably closer to the typical assumption that is being made by plans these days.

The ratio of the first value to the second one, as shown in the last column there, ranges from over 500 per cent at age 30 to about 170 per cent at age 60. Those ratios include the effect of continuing the excess interest adjustments beyond the age of retirement. In other words, it's not just during the deferred period but right through for the life of the employee after he starts drawing the vested pension.

What that table is saying is that if you went to a three per cent benchmark--and one of those things that we really haven't talked about in very much detail is what is an appropriate kind of benchmark?--which some people see as the eventual goal, a rate that is something like the noninflationary rate of interest, if there is such a concept, the relative value of the vested benefit to the terminating employee is going to be multiplied by this kind of ratio. Another way of saying the same thing is that that's a measure of what the employee is losing now by getting a fixed benefit instead of one that is adjusted in some way for inflation during the deferred period and the post-retirement period.

Those are really generalizations. They are meant to be indicators or helpers. As I say, we don't have really comprehensive stuff on costs. In the proposals we are advancing here the costs are mainly in those two areas, that is, in the vesting portability area and in the inflation-adjustment mechanism.

There are a lot of other subject areas that you are probably looking at that we haven't talked about where cost may be a factor as well. In the other things that we discussed, like uniformity and so on, I don't think you can quantify or measure costs. Certainly there are some costs associated with lack of uniformity, but we have confined ourselves to things we could put some sort of more definitive measurements on.

Mr. Priestner: I think the last time I looked at one of those FEI surveys it showed that, across the board, employers generally pay about 7.5 per cent to support the pension plans. So you would be saying that in the worst case it would go to 8.5 per cent for the improved vesting. Is that right?

Mr. Brown: That's right.

Mr. Priestner: One per cent doesn't sound like very much, but when it's one on 7.5 it sounds like more.

Mr. Brown: You should have looked at the survey. The worst case only happens where the employer has a 45 and 10 vesting rule now, that is, where he's just got minimum compliance with the law. My recollection is that most of the employers covered by that survey have considerably better vesting rules than the minimum.

Mr. Priestner: But the cost in that case is universal across the board to the extent that he approves his benefit. The cost of excess interest is, of course, determined by the ratio of pensioners and vested pensioners to the total population. Each one of them costs a lot. What it costs in total depends on the mix.

Mr. Brown: Sure. I think maybe we said at one point that if you've got a plan with five pensioners for every 100 active employees you have a much smaller cost for the excess interest approach on your pensioners than if you have one with 50 employee retirees for every 100 active employees.

The impact on different employers--mature employers, new companies and so on--will be tremendously variable. You have to be a little bit cautious in generalizing about these things. The railways, for example, don't come under provincial jurisdiction, but they have got long-established, old plans with large groups of pensioners and shrinking groups of active employees. With a plan like that, these kinds of proposals can have a very significant cost impact.

4 p.m.

Mr. Chairman: That was very interesting. I must thank you gentlemen for a very productive day. I think I am speaking on behalf of all the members when I say that we certainly enjoyed your comments and we have learned from the answers that you have given us to our questions. Thanks for taking the time to come before us today.

Mr. Brandt: Mr. Chairman, before you close off I have one question that perhaps has more relevance to my own jurisdiction than others. Your last point brought to mind a particular concern that I have, which is the railroad employees who have worked for American railroads and have US pensions. Have you had any difficulty in any dealing with that kind of situation?

Mr. Bentley: I can answer that, if you want. I have religiously turned it over to the federal Department of Insurance. Railroads come under their jurisdiction and not provincial.

Mr. Brandt: We have been talking in the context of Canada, but we also have an international situation as it relates to a certain limited number of employees. The New York Central has quite a number of them in places like St. Thomas and probably in London in Mr. Peterson's jurisdiction who are collecting a US pension. It is just a matter of interest that I brought that before the committee so that they are aware of the fact that it does cross international boundaries as well.

Mr. Bentley: BC, Manitoba, Ontario, Quebec and the Maritimes all have the problem as well.

Mr. Peterson: I do not know if you are prepared to discuss this, but I am interested in your views, either as individuals or as members of the commission, on the whole coverage question. We have talked about adjustment of the Pension Benefits Act here. I get a sense of your feeling about PURS, and I guess

your feeling on the CPP. Do you feel that the private pension system should be or could be adjusted in any reasonable way to provide universal coverage through some device or other?

Mr. Priestner: In a compulsory way?

Mr. Peterson: Yes.

Mr. Priestner: There should be. I do not think the commission ought to take a position on that, Mr. Peterson. It is beyond our purview. I think each of us would have individual answers on that.

Mr. Peterson: Are you prepared to give us your views on that as experts?

Mr. Milling: That is a rather difficult question. I would be glad to give you my individual views but probably not as long as I am appearing here on behalf of the pension commission.

Mr. Peterson: We could cancel the first appearance.

Mr. Brandt: Could I ask a supplementary to that same question? In your opinion, is the private sector responding in a somewhat more responsible way as a result not only of these hearings but of the royal commission report? Would you give us your indication whether or not they are moving in a positive direction? I have my opinion on that but I would like to hear yours, not necessarily that it would become the end-all and be-all in terms of pensions.

Mr. Mackenzie: I think they are moving that way too.

Mr. Brandt: Then the question is then one of degree. That's really what David's question is.

Mr. Peterson: I would like here to clearly say for the record, "Look, you are on your own now, as individuals, as highly knowledgeable individuals, who deal with this question from a number of points of view." If you are prepared to do it, it would be very enlightening to us because we have some very difficult problems to wrestle with, as I know you know.

My guess is that in the things that you have said here there is a fair bit of unanimity. I think it has been a very constructive brief today as far as the Pension Benefits Act goes. That is only part of our mandate and I, Mr. Chairman, would like to hear their individual opinions.

Mr. Chairman: All right, I want to say this. The Pension Commission of Ontario was invited to appear before us today and it has done so in the form of a subcommittee of that particular body. We heard from them in that capacity. If it is the committee's wish at some future time to hear the personal views of the individual members of that commission, then the committee can certainly entertain that and invite them to appear. Apart from that, I will ask if there are any further questions in connection with the presentation.

Mr. Peterson: They are sitting here. We have 20 minutes.

Mr. Mackenzie: I think your ruling on that is right, Mr. Chairman. We can reschedule if it is going to be of some help.

Mr. Gillies: These gentlemen were invited here on the premise that they were representing the pensions commission. I am not sure we are putting them in a very good position by asking for their personal opinions at this time.

Mr. Chairman: In any event, that is the chairman's ruling.

Mr. Gillies: We'll support it, Mr. Chairman.

Mr. Chairman: All right. The committee stands adjourned until 10 o'clock tomorrow morning.

The committee adjourned at 4:05 p.m.

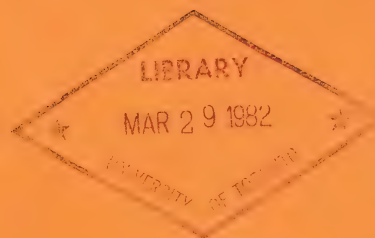
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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

THURSDAY, SEPTEMBER 3, 1981

Morning sitting



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Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk pro tem: Arnott, D.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

Pesando, J. E., Professor of Economics, University of Toronto

From the Ontario Coalition for Pension Reform:

Edward, Dr. J., Member, Social Planning Council of Metropolitan
Toronto

Edwardh, Dr. M. O., Member of Executive, Pensioners Concerned

McKay, M., Member, Canadian Council of Retirees

Ney Smith, Dr. S., Member; Development, Education and Action

Russell, I., Member, Family Service Association of Metropolitan
Toronto

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, September 3, 1981

The committee met at 10:13 a.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I guess we can get started.

The exhibits since last day are as follows: Exhibit 97, a submission dated August 1981 from the Ontario Hospital Association. Exhibit 98, a submission dated August 1981 from Ross K. Rigney. Exhibit 99, Pensions for Housework, a submission from Reva Landau. Exhibit 100, a letter dated August 21, 1981, from Dale Allan, president of the Durham Regional Police Association. Exhibit 101, committee research officer, Cost of Increasing Guaranteed Benefits and Interprovincial Migration; Government Retirement Income Programs; Annual Interprovincial Migration 1978-79. Exhibit 102, committee research officer, President's Commission on Pension Policy, dated February 26, 1981.

You should have those exhibits in your binders. If you haven't, please let me know and we will see that the oversight is rectified.

This morning we have with us Professor James Pesando. Following Professor Pesando's submission we will be hearing from the Coalition for Pension Reform.

Professor Pesando, would you like to come forward and sit before one of those microphones so that we can not only hear you now, but in the future review your comments, the questions from our own members and the responses you will hear.

We have your brief. For those who have not located it yet, I believe it is exhibit 58. You can start in whatever way you like. We have your brief and you may want to review it, touch on the highlights or whatever.

Mr. Pesando: Thank you very much for the opportunity to speak to this committee. What I would like to do, given the length of the brief--in fact it was not written for this committee but as a general discussion paper of the report of the royal commission on the status of pensions, leads me to prefer not to go through highlights, but simply to discuss very briefly four points which I think I would like to emphasize to this committee.

The four points touch on the following issues: The cost of living protection to be afforded retired plan members; the issue of vesting pension benefits; the issue of the portability of pension benefits; and finally the concern expressed in some quarters with the main recommendation of the royal commission, which is that this universal money purchase plan is entirely

unacceptable because it exposes plan members to an excessive degree of investment risk. Those are the four issues I would like to highlight. After that I would be delighted to entertain questions on the brief or on these remarks.

With regard to what I perceive to be perhaps the most fundamental concern about the private pension system, which is the concern that many plan members once they have reached their retirement age are extremely vulnerable to, the impact of inflation, is an issue I think has to be addressed if private pension plans are to remain an important component of our retirement income system.

I was quite distressed to see the procedure suggested by the royal commission which is, as I trust you are now familiar with, a type of inflation tax credit. For reasons which I summarize in the brief, but will not repeat, I think that is entirely a nonstarter.

So the first point I would like to emphasize is that I am in complete agreement with the position that I gather the committee has heard before, which is if we are going to try to improve the cost of living protection provided through private pension plans, that perhaps the corner stone of legislative initiative should focus on the use of so-called excess investment earnings.

The principle is quite straightforward. Interest rates let us say in today's inflationary climate may be in the order of 15 per cent, when we know that if there were no inflation interest rates would be closer to three or four per cent. Lenders are in fact being compensated for the expected inflation that is likely to occur in the future--let us say somewhat in excess of 10 per cent a year--and the basic insight of the excess earning principle is that the interest rates that plans can earn have built into them an inflation component which in turn could provide the basis for very substantial cost of living improvement.

I realize, particularly with oral testimony, that technical arguments are seemingly very difficult to follow, so I would like simply to go on record as suggesting that in my opinion the committee would be very well advised to consider carefully the issue of excess interest earnings as perhaps the corner stone of improving cost of living protection.

Two points I would like to emphasize: First, that the task force on retirement income policy did a series of simulations designed to highlight the likely effectiveness of this excess interest principle. The simulations were done for a period 1962 to 1978 and what they indicated was that if a fund had been invested, let us say in commercial paper or mortgages, and if all excess investment earnings above two per cent had been applied toward increasing the value of pensions in pay, that virtually complete cost of living protection would have been afforded.

The point I would wish to emphasize is, first, the period under which the simulation was undertaken, 1962 to 1978, was a period of almost accelerating inflation. Which is the type of period in which the excess interest principle is going to look very bad. So the point is that even in this adverse sample period,

excess interest earnings did in fact prove to be a reasonably satisfactory way of addressing the need to improve cost of living protection.

10:20 a.m.

The difficult issue and one which, at the technical level, the committee would have to address if it were to seriously entertain the excess interest concept, is whether or not the concept would be introduced around the plan's valuation assumption so that legislation, for example, might require that plans apply all investment earnings above their assumed valuation rate to improving cost of living protection, or whether or not there might be a statutory rate--let's say three or four per cent--and the legislation would require that all investment earnings for all plans, regardless of valuation assumption, above this three or four per cent be applied to cost of living improvement.

Those are a set of technical issues which I do not want to address in my oral comments but which I think will merit consideration by the committee.

The second issue with regard to private pension plans and on which there is virtually universal agreement is the fact that if retirement incomes are to be delivered through the private pension system there is going to be the need to move towards more immediate or early vesting. Specific recommendations of the royal commission which, if I remember correctly, are 10 years of service if PURS is introduced and five years of service only if PURS is not introduced, are probably less generous to employees than most of the recommendations being made by other reporting agencies.

What the royal commission emphasizes and which again at a technical level this committee will soon realize and be comfortable with is that a move towards earlier vesting, which is not accompanied by some parallel initiatives, is not likely to be very effective. The royal commission points out, for instance, and makes the specific recommendation that in contributory plans the legislation towards earlier vesting should be accompanied by a requirement that says, in effect, the employee's own contributions cannot purchase more than 50 per cent of the benefit to which he becomes entitled.

What I would like to emphasize to the committee is there is another aspect of this vesting issue which the committee was somewhat regressive in not considering and that deals with the issue of portability. Vesting and portability are closely tied.

The portability question arises from the recognition that labour turnover in Canada is high--and in Ontario as well. So even if a plan member or even if a worker has been a member of a plan or a succession of plans, he may not have very high benefits when he retires. Yet for all intents and purposes the royal commission does not address the portability question which I found quite surprising.

A very useful way of trying to improve the effective vesting provisions would be to use the excess interest principle in the context of improving the effective portability of pension

benefits. In particular, if plans were required, for instance, to value deferred annuities at the plan's valuation assumption and to transfer the lump sum so calculated to a locked-in registered retirement savings plan in a manner directly analogous to the use of excess interest in the post-retirement period, there would be a substantial amount of cost of living protection.

One of the virtues of thinking in terms of the excess interest principle is that it can be applied not only to pensions in pay--that is to say, for retired employees--but it represents a logically consistent way of trying to provide some cost of living protection to the pension benefits earned by terminating workers which otherwise would be greatly eroded by inflation between the date at which the worker leaves the firm and the date at which the pension becomes payable. That is a very major shortcoming of the royal commission that it chose not to address the very serious problem of portability.

The portability issue is interesting because it also highlights the fundamental conflict that many reforms simply have to address. There are two distinct issues on portability: One is the simple economic fact that one cannot expect employers with great excitement to want to introduce reforms which make it easy for employees to quit the firms. Obviously employers in many cases have substantial investments in employees, so one of the obstacles to improving portability, one has to realize from the beginning, is that firms, for good reasons, are not particularly anxious to encourage the mobility of labour.

So you do have a bit of a conflict here between the social objective of trying to improve the flow of retirement incomes and the simple fact that firms are not particularly anxious to make it easy for workers to quit and transfer to other firms.

The other aspect of the portability problem which merits attention is the technical problems involved in designing a truly portable pension system, a system in which pension credits could be transferred from one employer to the next. I am quite prepared to say that those technical problems are complex. My response to that observation is that the use of excess earnings--again perhaps above the plan's valuation assumption--is such a more precise and in all likelihood a very effective way of dealing with inflation protection for workers who have terminated prior to retirement, I think your committee should give it very serious consideration.

The final specific point I would like to speak to deals with the concern I have heard in Ottawa and elsewhere concerning the prime recommendation of the royal commission which was for a mandatory universal money-purchase plan called PURS. Many critics have tried to summarily dismiss the proposal by observing that in a money-purchase plan, the benefit that the worker receives is entirely dependent on the success of his investments. Therefore, there exists uncertainty with regard to what the final pension will be. I have heard some pension critics simply say this uncertainty in and of itself makes this whole concept unworkable.

I think that argument is very easily overstated and so my final remarks really address the following point, that although

the royal commission was quite delinquent in not explicitly considering the problem--that is to say the royal commission should have tried to educate readers of its report as to the extent to which there would exist uncertainty regarding the pensions ultimately delivered through PURS--the simple reason that those pensions are going to depend on the investment performance is a major limitation of the report.

I don't think, however, that the fact that the royal commission failed to address this issue explicitly is sufficient for critics to turn around and dismiss the proposal regardless of other merits. It seems to me that two points merit emphasis: that if you are to have a universal money-purchase plan--and to a large extent I think the current figures suggest about 20 per cent of taxpayers in Canada have equivalently registered retirement savings plans which of course are money-purchase plans--the plan member can control the degree of investment risk.

If a plan member under PURS chose to limit the uncertainty with regard to his final pension--he would have the flexibility for instance to invest in relatively conservative assets, either directly--GICs, the trust companies--or perhaps indirectly through a financial intermediary, commercial paper, treasury bills and so forth, which in fact are going to provide a pension benefit whose real value has some reasonable expectation of being predicted quite precisely.

Certainly by way of contrast it is not appropriate to view defined benefit plans as somehow reducing the risk to which workers are exposed. In most defined benefit plans the benefits are purely nominal and so as inflation girates around, as unfortunately it has in the last 10 years, the real value of those benefits rises or falls dramatically.

So in looking at money-purchase plans it is very important not to fall into the trap of assuming that somehow in money-purchase plans plan members are exposed to investment risk and somehow that risk disappears if they are members of defined benefit plans. Under defined benefit plans there is an enormous amount of inflation risk that plan members are exposed to.

I think the most useful insight, and one which I did not mention in the submission, is the fact that there is evidence today that many of our defined benefit plans are undergoing a type of metamorphosis. The defined benefits plans are taking on the characteristics of money-purchase plans.

The most obvious insight in that regard is the recognition that many sponsors of defined benefit plans are already using this excess interest principle as a means of trying either to enrich the benefits for workers still active or to improve, through cost of living adjustments, the real value of pensions and pay. So in the defined benefit plans--and most large employers in Canada are making these ad hoc adjustments at least in part on the basis of excess earnings--the plan member is already in a position where his ad hoc cost of living payment depends on the investment performance of the fund.

10:30 a.m.

That observation suggests that this distinction between a money purchase plan on the one hand and a defined benefit plan on the other is, in point of fact, becoming very blurred. One way of looking at the defined benefit plans in the private sector, in which ad hoc cost of living payments are being made, in large part on the basis of so-called excess earnings, is that plan members, although it is a defined benefit formula, have a plan with many of the characteristics of a money purchase plan.

I think that is a very important insight to keep in mind when one has to evaluate whether the committee decides to recommend the mandatory private pension, whether it should be of the money purchase versus defined benefit or some combination of the two.

As I suggested, I could spend a great deal of time going through specifics in the report I submitted but I would prefer at this point to cease and to entertain questions.

Mr. Gillies: Thank you, professor. We had the members of the Pension Commission of Ontario here yesterday and we did talk about this concept of the excess interest form of indexing.

I have heard two different opinions on this, one from the commission being that there should be some sort of external yardstick that determines the indexing, the other being that at least the employers, I guess the people who arrange the plans, would prefer the indexing based on the performance of their own plans so that it is not an open-ended outflow of funds.

I think there are very good arguments on both sides of this. I wondered if you might have any thoughts on it.

Mr. Pesando: The first point to recognize is there are many ways in which excess earnings can be introduced. The crucial issue is, or there are really two, are you going to introduce, if you do introduce, excess earnings around the plan's valuation assumption or around some statutory rate such as three or four per cent?

The second issue is, and this is the issue you are raising, should the excess interest be based on the performance of the specific plan, either versus its own valuation assumption, or the statutory three or four per cent or should it be based on a model portfolio?

The simple point is that, if it were required by law that the excess interest be based on a benchmark portfolio, the net result would be to create rather strong incentives to individual firms to have a portfolio that very much mirrors this benchmark portfolio. That would be the way in which they would reduce their exposure to the possibility that, in a year in which the benchmark portfolio did well, their portfolio did poorly and, therefore, even though there are no excess earnings, they are being required to make large ad hoc cost of living payments.

The major concern I would have with the use of the benchmark portfolio is the fact that you could have strong incentives, once you have chosen the benchmark portfolio, for a type of uniformity that perhaps we do not want to impose in terms of a very active participant.

So my first concern and preference would be that the performance indexing scheme be geared to performance of an individual plan to the extent that the performance of an individual plan would be the basis for the ad hoc cost of living improvements.

There is also an argument that workers should have some representation directly on the committee which manages the portfolio because, clearly, once you are in an excess interest scheme, the workers themselves have a well-defined proprietary interest in the performance of the fund.

In that regard, a related issue would be that, if we were to introduce excess earnings with the specific performance of the fund being the key point of the program because workers would therefore be so closely affected by the performance of that fund, there is an argument for representation on--and the combination of worker representation so that their interest is well-served, combined with the concern that, if you use that benchmark portfolio, you might be unnecessarily forcing a degree of conformity in terms of investment strategies, which leads me on balance to prefer a scheme where you have simply the performance of the individual plan as being the keynote to the excess earnings scale.

Mr. Williams: I have a clarification. The report recommends in any event that there be employee representation on these funds whether the excess interest is a factor or not.

Mr. Pesando: I am pleased to hear that.

Mr. Mackenzie: On this same question, in the event that, for whatever reason, the fund is not performing and there are not excess interest earnings, there is no provision then for a cost of living adjustment for the people in it. They have to take a look at who is managing the fund or what they do to change it.

Mr. Pesando: It is fairly clear--and maybe this is something we are going to have to acknowledge--that there is, in fact, a way of virtually guaranteeing that cost of living protection would be close to complete under excess interest earnings and that is simply to ensure that the funds in the plan are largely invested in short term investments, such as commercial paper or Treasury bills which tend to track very close to the actual rate of inflation.

One might make the following type of observation. Maybe, in terms of management of pensions funds, at least conceptually there should be a break between the pre-retirement and the post-retirement period. Because at the post-retirement period, perhaps retirees are willing to forgo the higher long-run expected returns on common stocks, for instance, in favour of the much

greater security, in terms of cost of living adjustments, which would follow if the fund were largely concentrated in a relatively short-term fixed income instrument such as mortgages, commercial paper and Treasury bills.

For instance, in today's inflationary climate--let us say we use four per cent as our valuation benchmark--as long as a plan were fully invested in mortgages and commercial paper, there is no way there is not going to be at least seven or eight per cent excess earnings as long as inflation is above 10 per cent in every year for the foreseeable future.

The scenario you draw, a scenario in which, for example, there is both high inflation and no excess earnings, it would have to be a scenario in which the fund is fully invested, let us say, in long-term bonds and common stocks in a year in which the bond market collapses and the stock market collapses. That could well happen--it happened in 1973-74, much to the concern, and rightly so, of the plan sponsors--but that eventuality can be protected against, if you will, by a judicious selection of assets in the plan. That is why, again, both management and workers would want input into the choice of that portfolio.

For example, it is important to realize that if I were management for the firm, I would be a little concerned about the possibility that you raise which would lead me, in turn, to make sure that worker representatives were a part of the decision-making process. Because you can imagine a world in which only management controlled the fund and your disastrous scenario took place.

The workers might be very insistent that something be done. One way management can protect themselves, and also give a voice to workers, is by making sure that, when the portfolio decision is made, it is a joint decision.

Mr. Gillies: The point that Mr. Brown raised yesterday, in discussing this question of whether there should be an outside benchmark, as you have been referring to it, he said that if there is some sort of external measure and then the individual plan outperforms the measurement, there is then funding available to the employer to reduce costs or use some of the money in another fashion other than just improving benefits.

I am not sure I buy that argument. I have a bit of a prejudice that the primary use of the funds at any given point should be to improve benefits, but I wondered if you might comment on that.

Mr. Pesando: It comes back to the design of an appropriate excess interest scheme. It would appear to me that a part of an excess earnings scheme would be to recognize, in any given year, perhaps on a cumulative basis, there is no reason to overcompensate the cost of living. In other words, let us say, excess earnings were more than sufficient to fully offset the impact of inflation. The question then becomes what do we do with those funds.

It seems to me that, logically, one way of designing the excess interest scheme would be that any surpluses would be banked against some future year in which perhaps the excess earnings were not sufficient to provide full cost of living protection. The issue you are raising is simply part of the broader question of how do we design an excess interest scheme.

My personal preference would be, particularly if one recognizes that excess earnings are not going to guarantee full contractual cost of living protection--which many critics of the private pension system see as perhaps its Achilles' heel--but a way of trying to put as much likelihood as we can into the effectiveness of this proposal, would be to consider the type of banking of surpluses in our suggested response to your question.

10:40 a.m.

Mr. Gillies: Your inclination would be that the uses applicable to the money earned beyond the benchmark--if you go with a benchmark--should be controlled. It should not just be available to the fund to do what they will.

Mr. Pesando: It is a little more difficult. Again I have to think about that carefully. If you use a benchmark fund, each individual firm finds itself in a situation doing one of two things, basically getting its assets to be the same as the benchmark fund so it does not have to worry about adverse possibilities.

With the benchmark scheme if you then said, "Okay, you have a benchmark scheme but, if you do better than the benchmark, you have to bank those surplusses," you would certainly then have to require that, if the firm did worse than the benchmark, it had some way of banking those losses.

You would need some symmetry to make sure firms did not feel completely constrained to reproduce the benchmark portfolio. It is really quite clear that, if a firm on the benchmark scheme is required to bank excesses but is not allowed to bank deficits, then every firm would simply make sure its portfolio was a benchmark portfolio.

My comment was really directed toward what is in my opinion the preferred approach, which is to have the excess interest scheme based on the performance of the individual fund and this banking problem arises, if in a given year the performance of that individual fund versus, say, the statutory four per cent rate is more than sufficient to give full cost of living protection, then that excess remains in a special fund designed to protect the worker in some subsequent period if the funds are not sufficient.

I guess one always has to try to be clear between which of the schemes one has in mind, the benchmark versus the individual plan way.

Mr. Chairman: It seems to me, Professor Pesando, that in listening to the persons appearing before the committee we are always talking in terms of excess. Maybe we are captives of our

particular period in history, but there are recollections of other days when we were looking at negative performances on a more consistent basis. I am wondering if equal consideration is given to the downside as well as the upside in terms of--

Mr. Pesando: I think the point is very well taken. Looking back, pensions plans are very much aware of the fact that in 1973 and 1974, a disastrous period for them along the lines you are suggesting, there was no excess interest. Had they not been investing in long-term bonds and common stocks, but had they been invested in treasury bills, commercial paper, mortgages instead, there would have been excess interest earnings.

One of the lessons pension plan managers are now more aware of than they might have been seven or eight years ago, is that in an inflationary environment if you wanted to reduce the exposure of the pension plan to investment risk much more so than had been considered appropriate a decade ago, you would have wished to keep a large batch of the funds in shorter-term assets.

In response to your very legitimate concern, one would simply note that, if we said today that excess earnings above four per cent will be employed, it would be fair to say that, so long as the funds that are now being set aside to meet the needs of retired pensioners who had largely invested in relatively short-term assets, that the disaster scenario you referred to is simply not going to occur.

It is only going to occur if, at the point where they have to set funds aside for retirees, pension plans were to invest largely in common stocks and long-term bonds. At that point the plan sponsor and ultimately the worker, depending on the way the scheme is designed, becomes very vulnerable to the possibility you suggest.

I think it is important to realize that the notion of an excess interest scheme would intimately tie the type of portfolio that the plan sponsor would wish to hold. Certainly, even back in 1973-74 if the plan were invested exclusively in commercial paper and treasury bills, there still would have been excess interest earnings that would have offset at least 50 per cent of the cost of living increases in 1973-74.

Mr. Chairman: Just following that up, what you have done is locked in early the type of investment with a mandated excess interest income supplement. Is that a correct observation? Am I correct?

Mr. Pesando: It is an observation that both the plan sponsor and the worker has to confront. It is a tradeoff between the expected return on that portfolio and the degree of certainty of cost of living adjustments is very closely tied to that portfolio decision. I think it would not be surprising if plan sponsors and workers were to decide that once workers had reached retirement age, they would prefer to have the funds at that point channelled rather heavily into say these relatively safe investments. This would however leave completely open the opportunity to invest in common stocks, long-term bonds, during that very long accumulation period.

So I think it is fair to say there would be incentives towards channelling investment funds towards shorter-term assets. But that would more or less occur only at the date of retirement. So the concern I see in your question is are we in fact not setting in place a series of investment incentives which ultimately are going to be destructive because they are going to penalize those members of the capital market who need risk capital.

Mr. Chairman: Yes, I was leading into the macroeconomic spinoff from that.

Mr. Pesando: The reason I tried to give this perhaps excessively complicated answer is to underline there really is a sharp distinction. At age 65, for that remaining life expectancy there is a likelihood you are going to create an investment incentive which is based largely on more safe short-term assets. But that leaves open during the much longer accumulation period the opportunity to invest in stocks and long-term bonds. So the macroeconomic repercussions would be far less important than they would be if we envisioned that somehow we are now forcing, through the entire accumulation and retirement period, plan sponsors to feel that in good faith they have to keep most of their assets in relatively short-term securities.

Mr. Williams: Just following up on this point, Mr. Chairman, if I might.

We have legislation, for instance, that controls the loan and trust companies so they can only invest a certain percentage of the moneys in, say, mortgages and other higher-risk types of investments. I am not aware what controls the investment brokers have with regard to percentaging their portfolios between long term and more secure investment as contrasted to the short term and the variety of investment as well. But in moving into this type of plan, where there would be involvement in the private market and the companies would be retaining investment firms to invest their portfolios for them, do you feel there should be some statutory control on the structuring of the investment portfolios?

I know it is prudent for most investment houses to hedge their investments in that very manner of providing good balance between these long-term, more secure, lower-yield investments as contrasted to the others. It is prudent that they do that. But do you feel we should go a step further and ensure there are these guidelines established on a percentage basis so you would always be assured of a well-balanced investment portfolio--there would be some latitude therein, but within certain percentages?

Mr. Pesando: I think a directly analogous question is, would we want perhaps the federal government to dictate what fraction of funds in an RRSP would be allocated to different types of investments? I keep going back and looking at PURS, which is nothing more than a universal RRSP. I think the answer is no. I would certainly prefer as an economist not to see that degree of conformity.

What I do think is important, however, is if a decision were made to expand money purchase plans with or without PURS there is

an education role which becomes very important, which is to try and make sure the people who are making those decisions, the holders of an RRSP for instance, plan members under PURS, are well informed as to the uncertainty of the retirement income dependent upon different asset choices.

I think one of the areas in which the royal commission was very delinquent was not explicitly addressing the fact that many plan members and even some of their advisers are not very sophisticated about (inaudible) markets. In order for them to make the right risk return decisions they have to be given better information.

So I would much prefer to see a world where, for example, something akin to PURS or RRSPs were encouraged, and at the same time, in lieu of some form of regulation very careful information is distributed to potential members so they can have a better opportunity to make the correct investment decision for them.

10:50 a.m.

Mr. Williams: On that point, I suppose it ties in with what we were talking about earlier about having employee representation in the plan. I have no difficulty with that. It makes good sense--psychologically if nothing more--that there is openness about the whole thing and the employees have direct representation there.

But it seems to me that even if that were not the case, the companies themselves to some extent are simply intermediaries. Where they have these large funds, they will normally go to the investment market in any event, to the professionals, to handle their portfolio. They just do not have the expertise to do it themselves, nor would an employee or a number of employees be any better equipped than the employers themselves to make the right decisions on how they should balance their investment portfolio. They have to rely on the experts.

In that sense, I suppose they are reduced to simply making a decision on one or two recommendations that would be made to them by their investment counsellors. To that extent, the employees in any event would be limited even if they were in the pension trust with the representatives from the employers who make those decisions. They would still have limited input in that context. Would you not agree?

Mr. Pesando: Certainly. In the extreme case of a registered retirement savings plan, obviously the plan member makes all the investment decisions; typically simply, "Do I buy a GIC or do I manage it myself and, say, hold common stocks?" But under something akin to a PURS scheme there would have to be some consolidation and there would be representatives making decisions on behalf of workers. So there would not be this one-to-one link between an individual plan member and the investment portfolio as there clearly is in a registered retirement savings plan.

In many ways that is not that dissimilar to what occurs now under, let's say, the defined benefit plan where the firm contracts out to have its funds managed. The big difference, of

course, is to a large extent under the current scheme of the defined benefit plan, the performance of the fund directly impacts on the wellbeing of the shareholders; whereas under the money purchase scheme, performance of the fund reflects ultimately on the plan members themselves.

That is the fundamental distinction. As I suggested in my introductory remarks it is already becoming blurred in any event, because to the extent firms are already using excess interest earnings, they are saying in effect to workers: "It is just like the money purchase plan. If we do well, we are going to get generous ad hoc adjustments. If we don't do well, they are going to be less generous."

In fact, not only does the investment management have parallels, but even who benefits or suffers when the plan does well or poorly also has parallels.

Mr. Chairman: Professor Pesando, could you comment on your perception of the magnitude of the group of persons who PURS was to address? When you are doing that, maybe you could also comment on the magnitude of that problem, not only the size of that group of people usually at the lower end of the income spectrum, but whether, in your view, that problem is as real or as large as it may sometimes be perceived to be.

Mr. Pesando: One concern I have and which I addressed in the brief is that introducing a plan such as PURS, which is a universal plan--it is designed to address the coverage problem--one has to recognize and ask the question, "Who are the workers who are not now covered by private pension plans?" As you correctly pointed out, from tax data we can determine they are mostly individuals who are at the lower end of the income scale.

It then raises the following question: If people at the lower end of the income scale are not in pension plans, that means all of their compensation is paid in the form of wages. It also means, in all likelihood, that when they retire they are going to have access to the income tested programs, such as GIS and Gains, as a means of bringing their retirement incomes up to some minimum floor.

Mr. Chairman: Excuse me for interrupting, but you are assuming now that those people are going to remain in that same body and you are not addressing the mobility of that labour in terms of working through the employment marketplace.

Mr. Pesando: I am speaking specifically to the term economists like, "workers with low lifetime earnings," so the lifetime earnings is the way to respond to that concern. I am not an expert on employment/age earnings data, but I understand a significant fraction of workers tend to be at the lower end of the income scale not only at one point in time but at most points in time.

The point I simply wanted to raise is we are willing to admit--and I think this is reasonably factual--there are a large number of workers not now covered by private pension plans who not

simply today but also in the future will be at the relatively low end of the perhaps rising income scale.

Whether or not we really are going to make those people better off by universal plans, such as PURS, is problematical. If you were to introduce PURS, what you would be doing in effect is forcing these low income workers to take part of their compensation in the form of contributions to PURS. To the extent they accumulated relatively modest pensions by the time they reached age 65 then, they would simply be reducing their access to income tested programs, such as GIS.

The reason I addressed that question in my report on the royal commission is the fact there is the notion that coverage is not universal in the private sector and somehow we will make these people who are not covered much better off by introducing or mandating some form of universal plan. My concern was simply to point out to potential reform advocates to think carefully.

It is not at all clear to me that for people at the lower end of the income scale--not simply today but who are also likely to remain there in the future--are perhaps not likely to be as benefited by mandatory plans such as PURS as simple-minded reform advocates might suggest.

By simple-minded, I am not being disparaging, but you must think carefully about what you are doing to these people when in effect you are saying: "Now you are going to save out of your compensation as a way of having some minimum retirement benefits. Incidentally, we should point out that means claims on GIS and Gains might be a little bit less because now you are saving out of your own earnings rather than accessing the public purse."

You might very well decide there is social benefit to be earned in having individuals provide themselves for their own retirement, but if one of the purposes of the reform is to say we do not want inadvertently to make poor people less well off with the reform than they might be in its absence, then there are concerns along the lines I have suggested which simply have to be considered.

For instance, I suspect that if one wanted to address that concern, one would want to have a scheme by which, if one introduced PURS, for individuals with low earnings in a particular year, may be subject to recapture that their contribution would be paid by the government rather than by the employer or by the employee. I say "subject to recapture" because if at some future date the workers' earnings have increased you might want to build in a provision whereby there might be some additional contributions now required for the period in which he was making no contributions, but they were being made for him or her on behalf of the government.

I am simply suggesting it is a problem that should be given more consideration than was given in the royal commission.

Mr. Chairman: You have not tried to identify the percentage, say, of that target as to whether they are permanently

in that low income area, or whether they are transitory, in that they pass through the system. They may be students or people who take on professions--I guess there are all kinds of people in that target group.

Have you any concept what the percentage might be of people passing through, as opposed to those who are permanently in that group?

11 a.m.

Mr. Pesando: Do you want me to distinguish between the medical student, whose income is low, and the gas jockey, whose income is likely to remain low?

Mr. Chairman: That is right.

Mr. Pesando: I am not sure, and I would not want to guess at the numbers.

In economics there is a lot of discussion about the so-called secondary labour force. The secondary labour force is a term that is used to describe those jobs such as, let us say, being a gas jockey, for which in effect there is no likelihood of advancement or promotion.

If I were asked to provide this committee with a number, I think what I would begin to do would be to study the data we have on the secondary labour force, to try to identify not only what fraction of the total labour force are in the so-called secondary labour force but also what fraction of the secondary labour force remain there over time. That is simply a calculation which I am not familiar with in terms of the numbers, but I would know how to proceed if I wanted to, let us say, spend a week or two working on the problem and come back to the committee.

There is a way of addressing that problem, and that is the way I think the research would have to move.

Mr. Chairman: Again, in a simplistic way, I see a division of that particular target group into those two categories. Now that may be an oversimplification, but if that is so, if there are those two types of persons in that group, then you are not helping those who are permanently in that particular group; you may be doing more harm than good in the long term, because of potential accessibility to other programs that could be more helpful to them in an economic sense.

As to the other part of that group, you are really addressing a moving target; again, it is a temporary situation and there may not be any long-term need, and really in pensions we are addressing the long term.

That is just an observation, which may be legitimate or not; but I gather that from what you said.

Mr. Pesando: It is a very good observation, and I weaseled my way around it in the brief by referring to individuals

with low lifetime earnings. My term "lifetime earnings" was in effect addressing your problem: How do you, and do you want to, distinguish between the gas jockey and the medical student? The answer is obviously yes, conceptually; and empirically, to the extent that certain questions hinge on that distinction, there is a need for additional research which you have emphasized and identified, and again to which the royal commission, I think, did not give adequate attention.

So I am entirely sympathetic to your observation; it is very important.

Mr. Chairman: Any further questions of Professor Pesando?

Mr. McClellan: Not to prolong the discussion, we are touching on a central problem here. Our concern, that of my colleagues and myself in the New Democratic Party, is that we will end up with a reasonably large residual population of secondary labour force wage earners who will be in a sense permanently consigned to the welfare system if we proceed with the PURS model.

That leads us to look in the direction of a reformed Canada pension plan, which would increase benefits and which would eliminate the regressive features, perhaps by incorporating minimum benefits in dealing with the regressive contribution structure, so that you eliminate the kinds of things that you raised.

Unless we can come up with some clear solution to the problem of people who are not attached to the labour force, and secondary market employees, I think we are going to have a large population, not a small minority population.

Would you agree at least that we are talking of a relatively large group of people who, all things being equal, are not going to be able to benefit by either a mandatory PURS system or voluntary reliance on private pensions?

Mr. Pesando: Since you mention the CPP as an alternative, I would tend to make two observations.

First, to the extent to which you can, if one so chose, overhaul the CPP in such a way as to deliver more of the benefits to workers with low lifetime earnings, in principle you could do the same things with PURS, simply by the way in which you chose to have the government make contributions on behalf of participants.

Mr. McClellan: Over time, though. You can do that over a 47-year period with PURS, whereas you can do it relatively quickly with CPP.

Mr. Pesando: Of course, the reason you can do it quickly with the CPP is that you are saying, in effect, "Okay, we are going to give big benefits today that we are going to pay for tomorrow." When I say "we," in my view of the world I think workers are the ones who ultimately pay for pension benefits. So one feature of CPP is that it allows to give in effect past service credits, which you can't do with the money-purchase plan if it is introduced in the way in which PURS is proposed.

At least in my mind, it is important to distinguish between two objectives. One is to try to improve the flow of retirement income. The second objective, and one I feel quite strongly about, is to concern oneself with trying not only to redistribute wealth in favour of low lifetime earners but also to create incentives that encourage them to be a part of the work force.

I think those are really quite separate issues. There is perhaps a tendency--and I saw this when I attended the pension conference in Ottawa--with regard to pensions for nonworking women, for in effect a broader social objective, which one may or may not agree with, to be somehow lumped in with what is in principle a separable issue, which is the issue of pension reform.

In other words, if your mandate is very large and you say, "Okay, pension reform will be the benchmark against which we will think about some broader principles of reform dealing ultimately with wealth-redistributive, resource allocation issues," that is perhaps fine, but I think it is very important to realize the two are in principle separable.

But I could be quite happy, for instance--and I am not necessarily advocating this--in suggesting that PURS may be satisfactory and at the same time arguing that, rather than using and redesigning the CPP as a way to flow some additional funds through the low lifetime earners, we simply do that in some alternative form. I am quite prepared to entertain those as separable issues.

Mr. Brandt: Just so that I understand the last point the professor was making: In effect, what you are saying is that, as an example, if we use the AIW as a benchmark, those people who are perhaps at 50 per cent of the AIW should not be looked upon in terms of improving pensions in quite the same way as those who are in the work force and find a pension affordable. You are looking at that group as a social concern rather than as a pension reform issue. Is that what you are saying?

Mr. Pesando: I think it's useful to distinguish that there are always two distinct motives for pension reform; one is the issue of poverty, and the other is the issue of income replacement.

One way of summarizing the two sets of comments is to keep in mind that those are two separable issues: the anti-poverty target of pension reform--which perhaps really isn't a part of pension reform, because the royal commission correctly points out that the efficient way to address poverty among the aged is through the income-tested programs--and income replacement in public policy. For example, relative to the United States--

Mr. McClellan: That's one approach, but not necessarily the appropriate approach.

Mr. Pesando: That is one of the--

Mr. Brandt: It is a philosophical difference.

Interjections.

Mr. Brandt: Just to pursue this for a moment, we have a series of programs, the GIS, the OAS, the Gains programs, municipal tax rebate programs and so forth that are not in any way connected with pension reform; but there is a feeling on the part of some members of this committee that through the CPP you can replace some of those programs or perhaps enhance the amount of money going to those people in such a way as to remove them from the poverty line or whatever, and there are others of us who perhaps think that those programs should be addressed in terms of what they provide to the people who are living at or below the poverty line and perhaps increase the benefits in that section as opposed to attempt to address it through CPP.

Mr. Pesando: Strategically, those are the two choices: Do you try separately to work on the issue of poverty in trying to factor, let's say, secondary earners into the mainstream of the work force, or do you lump the income replacement and the anti-poverty objectives together and think in terms, let's say, of one CPP type of reform?

I have no strong preference. Conceptionally, I guess I would prefer the one that keeps the issues separate, because I think one is likely to ultimately pursue better policies if each policy is well designed in an integrated fashion towards specific objectives. It is quite clear in the royal commission report that if you ignore the poverty/income replacement objectives and think only that the problem was universally one of income replacement, you might very well inadvertently do things that are inappropriate if your concern ultimately is with the poverty objective.

So I guess my general preference would be to keep those two as conceptionally distinct as possible in terms of one's thinking about the problem. Obviously, if one wanted--I gather from the NDP representatives--to contemplate a CPP expansion, then clearly in principle one could do enough adjustment of the benefit formula to accomplish those objectives, recognizing that the issue of who pays is a very important concern.

11:10 a.m.

I guess the one thing I don't like about the CPP proposal, at least if it were done on a pay-go basis, would be that although one could tinker with the benefit formula to get away from some of the wealth-redistributive features, as these gentlemen are well aware, there is this intergenerational transfer, which is sort of a cheap way of providing enriched benefits today, particularly when we recognize inevitably that demographics are such that 30 years from now, not only do we have GIS, OAS, health care, et cetera, which are going to be a very large expenditure relative to the present, but also some very real possibility that if we enrich benefits today on a pay-go basis, there are going to be cutbacks in the future.

In order for individuals to make good long-term plans, you don't want to jeopardize plans once you put them in place. That is my major concern about, for example, a pay-go amendment to the CPP.

Mr. Brandt: If we recognize as well that there are a number of people who are having great difficulty coping with inflation in today's situation, and that obviously is a reality, the immediate or even short-term enhancement of the CPP, from what I have been able to see, does not really offer any immediate relief to those people.

Perhaps the next group, partly represented by Pensioners Concerned, want to make a similar point, but the fact of the matter is that CPP is not going to remove a lot of people from the poverty line or below the poverty line, such as perhaps been suggested in some instances. It doesn't offer the immediate relief, I guess is the point I am making.

Mr. Pesando: The only way you can address the poverty issue at present is through either lump-sum grants or expanded GIS. Even if you were to say, "I am going to enrich past service credits under the CPP," then you would only benefit people who have past service credits. So your the point is well taken.

Mr. Gillies: Exactly, yes.

A supplementary very briefly, if I may: What would you think of the kind of guaranteed annual income program across the board, say, that Bob Stanfield suggested?

Mr. Pesando: I think in principle this is beyond the issue of pension reform per se.

Mr. Gillies: I appreciate that.

Mr. Pesando: I am very sympathetic to the notion of guaranteed annual income as being a much more efficient solution to the sort of umbrella of programs of income support both pre- and post-retirement, but that is really a broad issue that I think is beyond the specific set of--

Mr. Chairman: And the question was hardly supplementary.

Mr. Gillies: It was the only way I could get it on the floor, Mr. Chairman.

Mr. Peterson: Can I just ask one question? Are you aware of any authoritative studies on that subject that look at guaranteed annual income, scrapping everything else, and not considered as an overlay to existing programs but de novo, as they say?

Mr. Pesando: I am sure that in the United States, partly because of the impetus some years ago of Milton Friedman, that the program has been given thought. I think it is considered probably sufficiently far removed from likely implementation that the nuts and bolts perhaps haven't been treated as carefully as they might. I could certainly give you the names of colleagues in Canada who, more so than I, could offer specific comments on that issue.

Mr. Chairman: Thank you very much. We appreciate you coming before us today, Professor Pesando. You have been very helpful and the discussion stimulating.

Mr. Pesando: Thank you very much for the opportunity.

Mr. Chairman: We have here also the Coalition for Pension Reform: Dr. Melvin O. Edwardh, a member of the executive of Pensioners Concerned; Moses McKay, Canadian Council of Retirees, affiliated with the Canadian Labour Congress; Isabel Russell, Family Service Association of Metro Toronto; Dr. Joey Edward, member, Social Planning Council of Metro Toronto; Dr. Sheila Ney Smith, DEA (Development, Education and Action).

Would you like to come forward and, if you can find a place in front of a microphone, we will be happy to hear from you. We have a mechanical problem in that there are five of you and only four microphones. So you may have to play microphone-chairs. If the speaker does not have a microphone in front of him, if he would kindly substitute or take a chair that has a microphone so that Hansard can pick up your voice.

Dr. J. Edward: (Inaudible) back seat all of my life and it is not going to change now. So, there you are. I am still in the wings.

Dr. M. O. Edwardh: Thank you, Mr. Chairman. We are very pleased to be here this morning. Perhaps so we can identify the people in the group I can go over them again.

Mr. Chairman: If you would, please.

Dr. M. O. Edwardh: To my far right is Moses McKay, who is with the Canadian Council of Retirees, associated with the Canadian Labour Congress. To my immediate right is Dr. Joey Edward, who is the director of the Metro social planning council, also in the department of behavioural sciences of the University of Toronto.

I am Mel Edwardh. I am associated with Pensioners Concerned. To my left is Isabel Russell, of the social action committee of the Family Service Association--which is, as you know, one of the largest associations of its type in Canada.

To my far left is Dr. Sheila Ney Smith, who is chairperson of the pension committee of Development, Education and Action, and also a faculty member of the department of social work of the University of Toronto.

Mr. Chairman: Thank you very much.

Dr. M. O. Edwardh: Taking your letter and warning to heart that you will give us approximately 15 minutes to review the major points we have made, we will certainly try to keep within that deadline. But you now have had a chance to see the report. We have made it as succinct and terse as we could. It would be possible to cover it in some detail in that allocated time, but I would follow your wish in that regard.

Mr. Chairman: We are certainly in your hands. You take whatever approach you like and we will be happy to listen; except we would like to have a little time for questions.

Dr. M. O. Edwardh: Yes. Thank you.

Mr. Chairman: Incidentally, I might remind the members that if they do not have the submissions in front of them, the exhibit number is 89.

Dr. M. O. Edwardh: Mr. Chairman, I thought I might just review for a minute the reason this group is before you. This Coalition for Pension Reform was formed a few years ago as we watched the debate related to pensions, and the issues and the reports, and we thought we needed a forum which would bring people together and give us a chance to discuss some of the aspects.

Also we should add that we are not technicians. We are not statistical experts. We are people who have watched, with concern, some of the things that are happening in Canada.

At that time, we also felt the need for an educational program for people to look at the issues of pension reform to have some knowledge of the cost, and so on, of the changes they wanted. To this end, we have produced some pamphlets. At the present time, we are working on an educational kit that will be an audio-visual one, which will be available to community colleges and other citizens' groups in Canada. We hope to have that finished by the end of the year, on the assumption that the pension reform and changes will not be completed for the next two years.

In our presentation there are certain basic assumptions which underpin the critique that we have presented to you. We believe firmly that pensions are for people. They are not necessarily a means to amass capital, though that might happen. There might be other objectives, but in the main they are for people. They are a replacement income.

Pensions are deferred wages, something that is earned, and they are not savings, nor should they be regarded as savings.

11:20 a.m.

We also believe that any legislative change as important as pensions should strengthen the fabric of our society, and should maximize the bringing of Canada together, should help minimize the regional disparity, and that this is a very important change and the social implications of it are frequently overlooked.

We are also part of a social and political democracy, and there is an evolving role for women in our society. There is a need to evolve a role for the elderly, those who have retired, to make them productive and participating members of society. Tied to this evolving role, or this concept, is the pension reform that we are considering.

If we lose the context and the reasons for which we are looking at these statistics and the means to pay, and so on, then this group feels that we shall all be the poorer for it.

This is our underlying assumption as we look at the report of the royal commission and any of the other reports in Canada, as I say, from a nontechnical point of view.

I would like, if you would care to follow me through the brief, to emphasize a few statements as we go along, and some of the things that we recognize.

Programs we refer to should be designed to ensure that benefits will enable people to maintain a customary living standard after retirement. I would think this is a very basic understanding because our experience with the groups we work with is that many or most have suffered considerable loss in living standards after they retire.

We believe in the criteria of equity and adequacy, and that these can only be met through a universal public scheme; and therefore the Canada pension plan should become the primary income replacement program. We feel that this meets problems of regional disparity and that it can be a unifying influence, that it meets many of the problems of portability et cetera, that confound the experts today.

Whatever is done, we have to look at our short- and long-term goals. We have many with us who are retired now and who are in trouble; and with inflation continuing at the rate of 12 and 13 per cent, the problem is only going to be compounded.

Also we have to plan for the future, so that this situation will not happen again.

With the short-term goals, we look at the largest group of people living in poverty today, elderly women. I do not think there is a report that has been produced that has not said that. There is ample evidence to indicate that the need is great.

Fifty-three per cent of Canadians over 65 receive some benefit from the GIS program, an amazing percentage. This is in a table in the appendix. It is a very disheartening percentage.

In order to arrest the widening gap between retired and employed persons, the basic public programs must reflect improvements in living standards and not just increases in the consumer price index. I would like to call your attention to that.

Some people say we cannot index, we cannot even keep up to the cost of living increase. We believe that the total productivity of Canada is increasing in its wealth and that we should all share in it. Just saying we will add 10 per cent to your pension is not letting me participate in the created wealth and so on of Canada.

Then we looked very carefully, as carefully as we could--let me be honest with you--at the report of the Royal Commission on the Status of Pensions in Ontario. We found we could not support this report, the recommendation for a provincial pension scheme.

We felt it would reduce the extent to which existing programs redistribute income. We felt it would accentuate regional disparity. We felt it would make it more difficult for pensions to provide portability for the mobility we need in Canada in the next decade as people move from place to place.

We are always concerned when people are compelled to save and there is no guarantee of the type of return. The freedom that is suggested here is the right for me to choose this annuity and this annuity and this annuity. I have considered myself some information about annuities; I have had them and I have found the choice very difficult. It is not an easy choice even if you have a great deal of information. There are many places in Ontario where such information is not easy to obtain.

I guess as I look at the rest of Canada--and I could see nine other provinces developing a similar one to respond to this--the suggestion became divisive and difficult to work.

There are other points I think we should make. It does not make any provision for years spent outside the labour force to raise children and makes no allowance for periods of relatively low income.

At the top of page three: Some of our members felt the amount of money that would come from this would not necessarily guarantee greater industrial activity in Canada, that some of the things they watch, as they state here, a great deal of our money has gone into corporate takeovers, not into new ventures.

We have mentioned it would be difficult to integrate this with other programs throughout Canada. Low-income groups would be required to save at rates they cannot afford for really little or no gain in their income at the end. It would little more than offset what they might get from guaranteed annual income system or guaranteed income supplement.

I think it is important that old age security and supplemental benefits, GIS and Gains, would not improve with general living standards if the commission's recommendations are followed. I elaborated on that point a little previously.

We were disturbed that the suggestion seemed to be that the government should not provide a model related to what they thought pension schemes should be, what they felt from their experience was necessary, that they could go no further than industry. We found that statement rather shocking. We felt the government has provided many models as Canada has developed over the years and there is no reason why it should not continue to provide.

Number three, we looked at the Canada pension plan. We felt it had two major shortcomings when we measured it against our criteria of equity and adequacy. We would like to call attention to the fact that, when it was started, we thought the GIS and so on would last for only 15 years and the Canada pension plan would move along significantly enough that we could eliminate these other grants. This has not been the case.

Therefore, we would like to recommend that it become, first of all, the primary retirement income program for middle- and low-income Canadians. We have suggested a percentage here.

11:30 a.m.

We are also concerned about the contribution that homemakers make to our society. We have found no means to include them and recognize this. We are suggesting that some changes might be made in the Canada pension plan that would permit them to be part of it. Also this would be done, of course, by changing the requirement related to the number of years one would have to work in the dropout period and so on.

I think I should read this next one: "The pension problems faced by women are complex. Their ability to earn an adequate pension is frustrated by low income, periodic withdrawal from the labour force, poor prospects for advancement and part-time work. Because of the complexity of the problems facing women and low-income people more generally, we believe governments should consider introducing a minimum benefit into the Canada pension plan. This simple measure would meet the needs of women and reduce the extent to which low-income people rely on income-tested programs."

We have also spent some time on the private pension plans. We think they are a part of the ingredient of the Canadian way of life. There are some changes that could be made in them. I am sure you have heard this many times. I will go over them: much earlier vesting, automatic spousal allowance clauses, disclosure of financial and actuarial information--in other words, let people know what is happening--the indexing of benefits and provisions for wider portability. The formulas that develop have a very definite relationship to the highest years of income earning of an individual.

If these changes are made, the private pension system will be able to play a valuable supplementary role building on the basic security of public programs. Experience suggests that these much needed changes will only occur if legislation is passed to enforce them.

All of which is respectfully submitted, Mr. Chairman.

Mr. Chairman: Dr. Edwardh, that was very interesting. Mr. Williams has already indicated he wishes to ask you a question. Also you can see there are others in line.

Mr. Williams: Dr. Edwardh, as the chairman has stated, your group has certainly zeroed in on the main concerns in the various areas: the private sector, CPP and your own perspective on PURS.

There is one point you covered there that perplexes me a little. At the top of page three, you stated what is the obvious: "PURS will deliver vast quantities of new money to major financial institutions." I am not sure what the relevance would be of your next observation, that because there is a fair amount of activity in the area of corporate takeovers these days, the money would somehow be--I suppose you are implying--misdirected from areas of investment as to protection of goods and services.

I am not quite clear how you see the money being diverted--if that is the right term to use--in an inappropriate

way. Surely, these investment institutions have to invest in sound securities, whether there are corporate takeovers involved or not.

That would be part of the determination as to how sound an investment would be in certain securities; management in other companies that would have an interest in that management. I am wondering if you could elaborate on that point. I do not see how it dilutes the principle of generating money in the private sector.

Dr. M. O. Edwardh: We started with the assumption that one of the basic reasons for building these large capital funds would be for the development of new industry, new directions, a new look at the energy needs of today. It seemed to us there was a feeling that this transfer would take place automatically.

I would agree with you that the investment policies of any large corporation would necessitate that this money go where it is safe and would make the best return. We are just trying to say that this type of fund development would not necessarily find its way into the job-making, the industrial development or energy programs and so on, that there was not an automatic transfer.

Mr. Chairman: I gather you are commenting, Dr. Edwardh, on the fact that the commission indicated these funds from PURS would be invested in the private sector. I think that is your response. Without getting into a debate on corporate cannibalism, I would only comment as well that, of course, whether it is the private sector or the public sector, that kind of thing goes on.

I noted the federal takeover of industry in the energy field and I suppose what you are saying is that we should be producing new and fresh developments to generate more economic activity, regardless of whether it is a public or a private sector plan. Am I correct?

Dr. M. O. Edwardh: Yes.

Mr. McClellan: Never mind your Joe Clarkisms, Mr. Chairman.

Mr. Chairman: I don't appreciate the significance, Mr. McClellan, but you can explain that to me after.

Mr. Peterson: There is a very distinct similarity. He is quite right.

Mr. Chairman: Mr. Brandt, you had a question.

Mr. Brandt: I had a question in regard to the comment in the brief making a comparison between public and private plans and I think the point you are making is that, since the private plans in many instances are inadequate, the target should be something more comparable to the public plans as opposed to lowering the public plans or the government plans to that of the private sector.

I think the royal commission made a comment to the effect that public plans should not exceed those in terms of benefits or

in terms of the kinds of dollars that flow to pensioners and those in the private sector.

I wonder if perhaps you have addressed the question of the lack of discipline in public plans, recognizing public plans--in many public plans, not all of them--are not funded to the same extent as is the case in the private sector. In fact, they come from taxation as opposed to the amount of money that is put in the plans as they are in the private sector.

Mr. Mackenzie: I want to dissociate myself from that "lack of discipline" that is coming from that member.

Mr. Brandt: I suggest the lack of discipline as being a proper way of identification.

Mr. Mackenzie: In your perception, not mine. That is the only point I am making.

Mr. Brandt: It is my perception and I think it is a perception based on fact because the plans are not required to be disciplined in any way in many instances and in fact come from future taxation.

Mr. Mackenzie: That is your perception, not ours.

Mr. McClellan: You can't document that.

Mr. Brandt: It's a fact of life. It's not a question of debate, it's a fact.

Mr. Chairman: If the New Democratic Party members would permit Mr. Brandt--

Mr. Brandt: I think I have made my point. What I am trying to say is that there is a major differential between the two types of plans, your point being that you should reach for the higher target rather than try to lower everybody to the other private sector target.

I am saying there is a lack of discipline, which is being exception to by some members of the committee, albeit on very limited information, and the fact of the matter is that I think it is generally accepted--

Mr. Mackenzie: I am quite happy that it is your observation.

Mr. Brandt: I am still being interrupted, Mr. Chairman. I am trying desperately to get my point across.

Mr. Chairman: I would ask the members to restrain themselves in tormenting Mr. Brandt.

Mr. Brandt: I am trying desperately not to be provocative.

Mr. Mackenzie: I just want him to claim authorship for

statements he makes that obviously do not have the agreement of others when he makes them as a general statement.

Mr. Chairman: I assume he is speaking on his own behalf.

Mr. Brandt: With respect, Mr. Chairman, there are a great number of statements that flow from the other side of the room that I disagree with, but I allow them just to flutter down as great thoughts from on high and I do not take exception to them but they are your position.

Mr. McClellan: In that instance, you are correct.

Mr. Brandt: Anyway, could you respond to that because I am concerned about that aspect of it? Certainly, in a perfect world there may be the possibility of doing the kind of thing that is suggested in your brief.

Dr. M. O. Edwardh: I find it difficult to respond to that without some of the details which you would include in the phrase "lack of discipline." I assume in general you mean they pay much more than they should, but I am sure you are referring to specific aspects of funding and so on.

11:40 a.m.

Mr. Brandt: I will give you a specific example so that my friends in the party opposite might be able to understand this question a little bit better. I am speaking specifically of plans which are indexed with no funding provided to incorporate that future indexation. That is the kind of thing I am talking about.

It has been a matter of concern to the Canadian public for some number of years now, since that indexing took place, that there is no money to support the kind of indexing that is proposed within certain plans. So it must come from future taxation; there is no other alternative. The money is not in some form of a fund which has been set up or contributed to by the people who are going to benefit from those future pensions.

Dr. M. O. Edwardh: Sir, I am going to let someone else in the group respond.

Dr. Smith: I guess I see the problem as being in the assumptions in your question, as if there is something special about having what we call a "funded plan." If you think of there being so many dollars that will go into a pot and stay there for 40 years and come out again at the other end, then I can see the rationale behind your question. But one of our basic points was that we have something called a "rising standard of living." We do not have any problems with the concept of as the standard of living rises perhaps future generations will be paying out more proportionately--I should not say proportionately, but in terms of dollars and cents--for me to retire several years down the road than the exact amount I would put into something called a fund.

We are not working on the principle of a funded plan that is billions of dollars held in trust, but rather more of a transfer

idea--the pensions are a reflection of a rising standard of living and therefore you have to eliminate the concept of a fund if you go along with that assumption. So the difference is, to answer your question, we are working on two different assumptions. We are not accepting the assumption of funded plans.

Mr. Peterson: Can I make a supplementary on that? This troubles me. You make a very important point--the one that troubles me. I am not sure it is a reasonable assumption that we are going to have a rising standard of living. That is inherent--a fundamental point.

Interjection: That is right. I was going to say the same thing.

Mr. Peterson: Look at the past three years. It is a real fact there has been erosion of real purchasing power in the last few years for a number of workers in the community. If 20 years hence a similar phenomenon occurs--and it could very well occur--I am not one of those people who are dramatically optimistic for our long-term economic prospects. I think there are going to be some fundamental readjustments going on and some basic readjustments in the way we live over the next few years.

Anyway, that is only speculative. The facts are there are certain times in our economic history when there probably will be a real decline in purchasing power. At that point, you are going to tax those people more to pay for accumulated benefits of another generation. So you are going to eat further into that erosion of purchasing power. It is a very difficult judgement to make that we have the right to create those legal obligations for people in an age of potential economic insecurity to pay a lot more of the 15 or 17 per cent of their payroll to look after someone else when they are having real trouble looking after themselves. Could you respond to that?

Mr. Chairman: Could you respond to that Dr. Ney Smith, or Dr. Edwardh? We all understand what you are saying. Certainly it is not historic yet for some considerable period--succeeding generations have enjoyed a higher standard of living and with increased affluence they can better afford to--from that economy--bankroll the pensions of the previous generation. Am I correct in that?

Dr. Smith: Yes.

Mr. Chairman: Mr. Peterson says it does not always have to be that way. We could see a recurrence of something that maybe Mr. McKay or Dr. Melvin Edwardh may have remembered certainly, and Isabel Russell might have remembered--more difficult times.

Dr. Smith: If I might respond to Mr. Peterson's comment, Mr. Chairman. If you work on the principle of a transfer and a maintaining of retired people vis-a-vis the standard of living in Canada--and let us take Mr. Peterson's scenario that our standard of living goes down. It has not happened recently, but let us say it does go down--

Mr. Peterson: It has. In the last three years it has been going down. There has been erosion of real purchasing power for a very substantial part of--

Dr. Smith: Okay. Let us work with your scenario. If your principle is to maintain people vis-a-vis younger people in our society, the same principle can hold. If I am going down, then retired people will go down. I am talking of deflated dollars here. But the principle still holds and I do not have trouble with that principle.

Mr. Peterson: Sorry, I just did not follow that. I did not quite understand.

Dr. Smith: The principle is that retired people are maintained at the same standard of living as younger people. I think you can apply the principle no matter what is happening--whether the standard of living is going up or going down.

Mr. Peterson: Here is the problem in real terms. Let us say we have doubled the CPP. There is going to be a phased-in increase in contribution levels of 15 per cent or 17 per cent over a 15-year period.

If everybody's income is going up that may not be a major problem. But if it is level and steady then my child, who is now three, in let us say the year 2000 will be working, will be paying a six per cent or seven per cent contribution level for the CPP disposal dad needs. His standard of living is not increased in real terms. But he is sitting there getting a seven per cent deduction off his pay cheque because his old dad voted himself a higher pension, doubled his own CPP contributions far beyond his father's contributions at the time he was a contributor.

That is the problem in real terms as I see it. That does not bother a lot of people, but the morality of that troubles me.

Mr. Mackenzie: Could you consider as part of the question reordering some of our priorities? They have been out of whack for a hell of a long time.

Mr. Peterson: That is the other side of the problem.

Mr. Mackenzie: It is a problem that does not bother me, but I recognize we are going to have to face it as long as I tie it into the cost that we have to tell people who are going to be involved eventually.

Dr. J. Edward: I would just like to comment briefly, more from the point of view as a gerontologist as we look at the whole new role of old people in our society.

But the question you are asking really raises a question of a vision. The question for your son is what kind of society do we want to live in and what role do we want, as legislators or consumers, to create for our old people?

I think the dollars-and-cents argument you put to us is a

limited one and not the argument for where do we want to go. The question ultimately as I see it is one of how do we want to recognize the contribution of people as they move through the life cycle, as they created the wealth, the affluence, the prosperity of our society.

That prosperity might go down a little bit in terms of a few percentage points, or up a little bit. When we look at our world there is no question we are one of the wealthiest societies on the globe. The question then is how do we want to divide some of our wealth--whether it goes down a little bit or up a little bit--among ourselves and future generations. Pension reform is a part of the greater question: how do we want to redistribute, to allocate, to put money in the hands of some of our older people so that they continue being citizens?

Dr. Edwardh referred earlier to us being a democratic society. If by virtue of the pensions we allocate to our senior citizens, we prevent their participation, as a gerontologist I will tell you that we prevent their participation in our society for the most part. Then, what does that say about our society?

Mr. Peterson: You think money will solve that question?

Dr. J. Edward: I think money is one of the fundamental issues related to the role of older people in our society--bar none.

11:50 a.m.

Mr. Chairman: You are talking in a relative sense? Because implicit is affordability and you are comparing--or at least from what I gather--say the incomes of the elderly to the economic circumstance of the general population in any particular period.

I suppose we are all the sons and daughters of somebody and our parents have been responsible for us and we should be responsible for our parents. There has been a change over the years from an individual responsibility to a collective responsibility and I suppose there should be some responsibility on the part of the general population, or the state, if you will, to ensure a dignity and decency in terms of the elderly population. Am I summing up your philosophy correctly?

Dr. J. Edward: Yes.

Mr. Brandt: Mr. Chairman, I wonder if I could pursue that question of economics just for a moment. You make a statement in the brief that the current debate regarding pensions is a matter of political will rather than one of economic feasibility. I find in the statements that have been made so far and what I have read of the brief--the part the good doctor took us through to this point--there seems to be a lack of any concern about where those dollars are going to come from. I guess I am on the same question as Mr. Peterson was trying to address earlier.

I think if you were to ask any member of this committee what

his feeling is with respect to retired or pensionable people, we are all in favour of doing what is best in trying to assist those retired people to the extent we can. There are some of us who are perhaps concerned about the economic ramifications. It is not just a question of what one would like to do but what is affordable--what one is able to do.

Could you give me some indication of where that money would come from? What kinds of shifts are you talking about in terms of the economic structure of the country? You are talking about a massive exchange of wealth from one sector to another.

Dr. M. O. Edwardh: Let me refer you to appendix page one. This is current retirement income system in comparison with the average industrial wage of 1978. I look at that discrepancy and it is a pretty horrendous one.

Mr. Peterson: You realize, of course, the real cost of that is not 3.6 per cent in Canada but it is more like eight or nine per cent in current terms?

Dr. M. O. Edwardh: No.

Mr. Peterson: Sorry. I am talking about figure one.

Dr. M. O. Edwardh: No. I was looking at page one of the appendix.

Mr. Peterson: I thought I was too.

Dr. M. O. Edwardh: There are two tables and then an appendix. There is a bar graph looking at the income of the elderly in Canada and the income of other Canadians. I am saying in our type of society that is quite a difference. We are talking about all people who have contributed to society and who are contributing. Maybe we are talking about a much larger number. I am not sure what that would mean--how big is the pie and how we are going to divide it.

I am trying to say two things: In Canada there is wealth. Second, when we look at Canada and place it among industrial nations we find that our total is pretty well down the list. My recollection from reading it awhile ago was thirteenth or fourteenth out of 17 in the amount of money we are prepared to put into our social welfare programs. All I can say is if Germany can do it or Britain can do it or Sweden can do it, why can't we do a little better.

That does not answer specifically where the money is coming from but I am saying when I look at these figures in the GNP there is money there.

Mr. Brandt: In part it came from a much, much higher participation rate for pensions at some long point in the past. In Sweden, for example, they are providing much more by way of extracting the dollars from the workers to provide for that kind of retirement income at a later point. The question is, how much do you want to take out of today's consumer for tomorrow's retiree?

Mr. Mackenzie: Are you saying that they were smart enough to start a little earlier, Andy?

Mr. Brandt: No. I am saying that there are perhaps may be some disincentives built into that system. In fact, it may be crumbling on them.

Mr. McClellan: It is reflected in their suicide rate, isn't it, Andy?

Mr. Brandt: I did not say that. I am saying that there are a great number of people in Sweden who do not look at that as being quite the utopian plan that other people seem to think it is.

Mr. Mackenzie: I am not a betting man, but I will give \$10 to \$1 that they won't change it.

Mr. McClellan: I knew somebody would want to make a bet. I just wanted to help them along.

Dr. M. O. Edwardh: I just introduced those examples and put our industrial production in line with some of the others and asked the question: Why cannot we afford more?

Mr. Chairman: Dr. Edwardh, it is not you who is being provocative.

Mr. McClellan: You will have to excuse us.

Mr. Chairman: Mr. Mackenzie has indicated that he wanted to ask a question. I assume it is of the celestial type, unlike Mr. Brandt's.

Mr. Mackenzie: It is a very practical one. Until last night, I had not taken a look at your brief. I noticed on the first page, though, that the position of your organization--it does not really surprise me--is that everyone should have the opportunity to earn an adequate pension as a right rather than receive benefits from income-tested programs, such as GIS and Gains.

I have heard members express almost incredulity at suggesting that some people on pensions might consider it a bit of a welfare measure that 53 per cent of those receiving pensions have to receive income from Gains or GIS to make ends meet. We have taken a position that we would like to see this eliminated and replaced by a program that people do not see as some form of welfare program. I take it that there is some sympathy, given that statement from your group. Do you people see that as a personal problem with people?

Dr. J. Edward: I would just comment in terms of the research and the interviews that I have done related to older people in the community. There is no question that the Gains and the GIS programs make older people feel as if they had failed. They make them feel that they have been unsuccessful in providing for themselves in our society. Often it makes them feel negative towards themselves and that, in fact, affects how they move out to participate in the society.

As an organization, at another level, we would say that it is just a part of a layered cake of income security measures we have created that is confusing, that keeps people below a poverty level and that we would be much better off as a society to move to a more comprehensive way of dealing with the income security issues of the elderly.

Personally, in terms of the individual life experience of old people, it is negative. They feel like beggars in a society that taught them to care for themselves. That is very important for us to understand in terms of the value set that we have as Canadians, our individuality, our striving to care for ourselves, and what those income security programs mean; and then, secondly, what it means in terms of the whole bureaucracy of providing that we have created.

Mr. Mackenzie: As part of the same question, I do not see quite the same negative feeling in the people I have to deal with who have inadequate incomes and the old age security portion of it. That seems to be a more accepted part of our retirement plan.

I would like to know if that is your perception as well; also, whether you accept the fact that if we went that route, if we decided that we are going to have something that improves what is considered a basic right in terms of an adequate income from whatever combination we bring together--and the simpler the better, as far as I am concerned--in terms of pensions for people when they reach retirement age, we could also be much more open and honest with the public, with ourselves as legislators, with everybody else involved in terms of what it is actually costing us.

One of the things that hides the costs is the kind of layered bloody program we have now and the difficulties with requiring people to substantiate their incomes or their needs before some of them are able to draw upon them.

Am I dead wrong or not? This is my perception from my dealings with people.

12 noon

Mr. McKay: Mr. Chairman, are many of you living on retirement pensions the same as I am? I know a little bit about it, and I agree in principle that it's a form of welfare, whether it's the GIS or the Gains program of the province of Ontario. The simple reason is that in my opinion you cannot build a social security system so long as we tolerate and condone 20 per cent of the Canadian people living on 3.9 per cent of total income and the top 20 per cent getting 10 times what the bottom percentage get. These are the latest statistics.

It's like an extension ladder. The reason I say you can't build a social security system on this philosophy is that since 1951, when I started working in Metro Toronto--I was working in Quebec before that--when you lift the bottom rung up one step, you push the top rung the same distance; so you have deliberately,

whether it was planned or otherwise, maintained that gap for 30-odd years. Nothing is going to fix it as long as we don't try to close that gap a little bit.

The thing that disturbs me very much is the proposed pensions are not going to do it for single pensioners and especially widows. Let me be very frank and state my case. If I die tomorrow, Mrs. McKay loses my money. I am still working at 78 years of age and paying federal and provincial taxes. She will lose 100 per cent of my earnings. She will lose 100 per cent of my old age security. She will lose 100 per cent of my government annuity, which is part of my own security that I built up. She will lose 100 per cent of my private pension. And she will lose 40 per cent of the Canada pension. She will be left with the same expenses as we have when we are comfortably living together right at this very moment. That is the case with tens of thousands of widows all over Canada.

The question always arises, where does the money come from? I suggest that there are a few people sitting around here today who are building their security at all. The money that you are now able to pay out to the different people you are so worried about has come as an inheritance from our work of 30, 40, 50 and 60 years' work in so far as I am concerned, my own personal contribution. You get the money from where exactly you get the money to build an airplane, a bomber or an atom bomb. Exactly the same place. All you have to do is move your priorities a little. It would not hurt anyone at all, but it would help an awful lot of people.

You can talk until you are blue in the face, and I have heard it for the last 30 years working in the community, about what we are going to do for the old people. But as long as you maintain those 20 per cent people at the bottom of the social economic ladder, you are always going to have welfare problems and you might as well get used to it.

There is one last point I would like to make; and I have all kinds of material. What I want to know for my people--although I am a member of this committee, there are some things that I have to get back to the Canadian Council of Retirees--if the employees covered are less than 50 per cent of the work force, what would this provincial pension do? Would it be portable within the province or within the national scope? Would it be fully indexed? Would there be survivors' benefits? What about the 10 years' service and age 40 and out; is that there?

What about the employer who takes the money he was supposed to put into a pension fund for nine years? I have no real pension, because I have never worked in a plant long enough; I always got fired for organizing a union or something. Therefore, the nine years' contributions that the company is supposed to put in there have already been written off as a cost of production. Do they send any of that money to the federal government?

So, indirectly, the federal government is paying a lot of the pension money that the firms are getting credited for paying. If you would allow me 30 seconds, I can explain fairly fully what it means.

This is a large firm. The contract just finished in September. "Subject to obtaining and retaining acceptance of the pension plan by such pension commissions and other supervisory bodies as the company may deem necessary, and subject to obtaining and retaining such acceptance of the pension plan by the relevant tax authorities as the company may deem necessary to establish that, the company is entitled to deduct the amount of its contributions to the pension fund as an expense before taxes under the provisions of the Income Tax Act." That is what the union had to sign before they could sign the contract.

So, changing your priorities a little bit is not going to help the economy of the country at all. It is going to help a heck of a lot of other old people and not going to hurt you or me, who are living pretty high on the hog at the present time.

There is one other final point that is most serious, as far as I am concerned. It is going to do nothing at all for those who are on private pensions that are nonindexed. My private pension, which I have been drawing since 1968, is nonindexed. It is hardly worth the paper to write the cheque on at the present time. But if I lose my job or give up my job through health or any other way, and if I apply for the guaranteed income supplement that I would be entitled to if I did not have a private pension, I have been told that I have a private pension of so much, even though it may not pay for a pound of coffee.

We have thousands of senior citizens who went out and got a little bit of a job. What happened to them? There was 100 per cent tax deduction. Let me give you one concrete example.

I got a man a job in a doctor's office cleaning it for \$80 a month. It was an hour a night; it was a very small job. I would have taken it had I needed the money. When I looked at the figures, what are known as the figures from your provincial and federal governments, I told him not to take it because as a result of taking that \$80, as everyone sitting around this table knows, his GIS would be reduced \$40, Gains would be reduced \$40, and he would have to pay a couple of dollars a week in transportation to go to do the little bit of a job. So I advised him not to do it.

Those are a few of the things--and there are others; I could go on for quite a while--that concern some of the old people right now. There is little or no help for those who are already suffering.

Mr. Peterson: You make a very eloquent case, and I am happy to hear your point. But this last example you used troubles me.

Let me give you a personal experience that I had on Monday. I went to an Ontario Housing unit in London. There are a number of problems with dramatically increased rent this year; there was a 30 or 40 per cent rent increase, and there was a lot of unhappiness about that. We went to a meeting with the residents and we looked at everybody's individual case. As you know, the minimum is about \$479 today for minimum benefits if you are

completely on a public plan. So we looked at each person's case to make sure that the bookkeeping was right.

One lady came to me and she said her rent had gone up so much. I asked why and looked at her case. I said, "you are not getting full benefits from Gains or GIS." I looked at her case. She had an annuity. She worked all of her life, with no pension plan. She was a single lady. She saved \$15,000--a remarkable achievement, in my judgement. She put that into a debenture of some type and was getting income from it; therefore, disqualified for any GIS or Gains, or anything like that--as you were saying, sir.

Then she said to me: "I have made the worst mistake of my life. Why should I have saved money? A lot of these people here did not save a penny. I did. I scrimped. I had a sense of responsibility to myself, to my country, to save this money. I saved it and now it is costing me."

Exactly your example, sir, in a way. Is it your judgement--

Mr. Mackenzie: As long as you don't use it to nail those who are not able to save, because they cannot.

12:10 p.m.

Mr. Peterson: I am not, Bob. This gentleman used a specific example. I am using a specific example.

In addressing the philosophy of this problem, I think we have to ask at some point--maybe it is a meaningless question I am asking but, on the other hand, as a gerontologist maybe you would say it doesn't matter whether that person is making any money; it may be more important to their mental health to go and have a job. I mean, there are other aspects to these kinds of things. You may not have the same view as this gentleman.

Do you have any comments on that particular example, or those two examples? What should be the social objectives from that point of view? Obviously, living in dignity is a very important part of the question. But there is more to living in dignity than just money.

Mr. McKay: The point you are missing perhaps is that she does not have to spend her \$15,000 at home. The \$15,000 is not considered as income according to your government's own figures.

Mr. Peterson: No. Just the income off it.

Mr. McKay: The interest she gets from that \$15,000 would be considered as income. There is no doubt about it.

Mr. Peterson: She says now, "Why didn't I spend it and come in here and get the same amount back from the government in Gains or GIS?"

Mr. McKay: I could say the same thing. I have been working for 60 years, all my life in different places. But I would

not say the same thing at all. I have saved enough to look after the family and myself, and I have not drawn a penny of guaranteed income supplement or the Gains program. So there is enough to save for yourself. I am more independent, and I feel proud about it.

Dr. Smith: I would like to make a comment. Your observation raises, I think, two important points. The first one is the very unusual position of that woman, as we know the employment records of most women. My congratulations to her to manage to save \$15,000, given her wages over the years. I see her as a rather exceptional individual, which is one of the problems of generalizing from an individual case.

But the second point, and perhaps the more important point I got out of what you said, was how our income programs for people as they retire have been built up kind of piecemeal fashion for any number of years and, therefore, the recognition by everybody that there are a lot of contradictions. We are encouraging some behaviour that we don't particularly want to encourage and dissuading other people from the type of behaviour we would like them to go ahead and do.

It is because we have not set out what are our social objectives and looked at pensions as a whole for across Canada that we get the type of examples that you have just given. The person who has indeed made great sacrifice over the years to put aside this money then turns around and says, "Now I am actually reaping the benefits of obeying some of the roles of our society," which, as an aside, I might say many women are seeing in other aspects of their life these days. But that is a prime example of what is happening because of the contradictions in our income programs right now for retired people.

Mr. Mackenzie: Part of the question I was asking, when I was trying to put the thing in focus that was bothering me, was the OAS part of it. Is there as much negative feeling about the OAS as there is about GIS or Gains? I have not found it.

Dr. M. O. Edwardh: I would like to answer that. When we started the old age security, they put a little thing on our income tax saying I was paying two per cent for it; so as far as I am concerned, I have paid for that all my life. It is an investment, and I am entitled to it.

Mr. Chairman: In the past, before you were here, I brought that to the attention of the committee on a number of occasions, because I am old enough to remember that as well.

Mr. Brandt: You certainly are.

Mr. Chairman: Yes.

Mr. McClellan: My colleague and I in the NDP at least support the solution that the coalition has put forward. In fact, your solutions to the long-term pension problem are identical in all respects, as I understand your brief, with our own perceived solutions.

Mr. Mackenzie: And has been the case consistently.

Mr. McClellan: I make the point, not for political purposes but simply to indicate that there is a consensus developing, at least in perhaps a small corner of our society and hopefully a larger section of this society, with respect to the direction of long-term reform.

You have identified something I do not think was identified previously as a problem with the PURS program on page two when you talk about--I suppose it is silence on the question of survivor benefits. I am raising this for purposes of the committee as much as with the witnesses. I am not sure we have looked at the question of survivor benefits in relation to PURS and what the inclusion of survivor benefits would do to the contribution structure and the benefit structure of the PURS program.

Mr. Peterson: Now, if Mr. Bentley could help me with that, my understanding of that is--

Mr. McClellan: Am I wrong?

Mr. Peterson: I think you are because it is a money purchase plan. You have a property right in that money you have accumulated under the PURS system. You can buy a joint annuity for you and your wife or you can buy your own annuity. You can buy a five-year, you can buy a whole life, and the estate is entitled to whatever is left in the pot at your death, so there is automatic--if you die with a PURS program and no offspring, your estate would get the residue of your PURS program.

Mr. Bentley: On a clarification, if you take a look at recommendation 40, it is item (d) which then refers to recommendation 53 which sets out the principles.

Mr. McClellan: This would no longer be on the basis of 20 per cent average industrial wage, though.

Mr. Bentley: No.

Mr. McClellan: Have we got a table of reduction worked out?

Mr. Bentley: I don't think there is one.

Mr. McClellan: Maybe that is something we could give you when we give you some additional data to work out your PURS model with varying assumptions. Maybe that is one of the things we could fold in and try to have a look at what kind of a problem survivor benefits represent within the structure of the PURS program.

Mr. Jennings: There is also the requirement, when he bought the annuity between age 65 and 71, the requirement that the primary form of benefit must be a life annuity, that the employee with at least a 60 per cent survivor plan, so you would be required to get that unless the spouse waived the benefit, for whatever reason.

Mr. Peterson: Just so we understand, if the two spouses die before all that money has been spent, that goes to the estate so your kids would get it. You make your own election if you want five-year, whole life; you can buy anything you want.

Mr. McClellan: I think one of the things that was stressed by this delegation was the problem of survivor benefits and I am not sure we have paid enough attention to survivor benefits, even within the structure of the Canada pension plan, let alone within PURS or within private pensions.

Mr. Chairman: Mr. McClellan, I think the point you have made is well taken. As a committee we really have not exhaustively analysed these alternatives, if they are alternatives; that is, the Canada pension plan enrichment versus the PURS program. I think that is an area we will have to get into in great detail in the new year.

Mr. McClellan: I understand that. I just wanted to stress that particular theme when we do that.

Mr. Chairman: I thought Mr. McKay's comments were very pertinent and should be considered in conjunction with the committee's in-depth review.

Dr. M. O. Edwardh: Mr. Chairman, just another comment, if I may, and I realize you are focusing on the PURS program: It is not the intention of this coalition to focus on that just to point out some shortcomings on it. I would like to go back once and reiterate we feel we need a national pension plan that reaches into all corners of Canada and we stand much the same before it, rather than depend on 10 different masters trying to fuse a portable, workable pension scheme for Canada.

Mr. Chairman: I think that message has come through loud and clear, Dr. Edwardh. Further questions?

Mr. Brandt: There is just one figure I would like to get. Could you give me the number you would like to achieve in terms of an optimum objective for a single person retiree and for a couple? Do you have a number fixed in so far as the coalition is concerned? I am sure that you do, but what number is that?

Dr. M. O. Edwardh: Do you mean the actual dollar number?

Mr. Brandt: The actual dollar number in 1981 that would be required for a retired single individual or a couple.

12:20 p.m.

Dr. M. O. Edwardh: I am going to let someone else answer this. I guess the only place I feel that I am really qualified to respond is the differential that exists between income for a couple and for a single person and the false assumptions that they may only need 50 or 60 per cent as an individual. So there are really two sets of figures you are asking for. One is for the individual and the other is for a couple. Is that right?

Mr. Brandt: Yes. There are a few things we agree on in this committee. One of them is that the perceived percentage for a single individual income as opposed to a couple is way out of whack in a great many instances and particularly affects females because of longevity factors and so forth more than it does males. I think we are in acceptance on that point. We would like to address that particular problem. Do you have fixed number which you could give us as your indication of what would be adequate?

Mr. McKay: The total fixed dollar is beyond the competence of me or anyone else where. You are talking now about the mechanics of what you would have to do if you had your increased pension alone. How we are treating our old people in Canada, in my opinion, is an insidious form of euthanasia. I honestly believe that.

Mr. Brandt: That is not helping me with the number. I appreciate what you are saying, but--

Dr. M. O. Edwardh: (Inaudible) on these figures. There is a real problem here of geographical location, of a whole series of how it--that you cannot answer, but they have worked on these--

Mr. Chairman: If you do not have a number, that is okay. We understand the gist of what you are saying. It was just a question of whether you did have it.

Mr. Brandt: Could I then ask, in terms of a more global approach, what percentage of whatever that number is would you suggest would be required by the single individual?

Mr. Peterson said, "Would you accept 80 per cent as opposed to the 60 per cent?" Do you have a fixed number on that?

Dr. Smith: We would endorse Mr. Peterson's suggestion of 80 per cent of the average industrial wage.

Interjection.

Dr. Smith: I think there are actually two points. There is a single, compared to a couple, which you have said you agreed on, but also our other point was that a retired person's or couple's income should be 80 per cent, roughly, of the average industrial wage. I think it is useless to put it in terms of 1981 dollars because it will be different next year.

Mr. Chairman: You would tie in the benefits of the CPP with the average industrial wage and that should be 80 per cent?

Dr. Smith: Yes.

Mr. Chairman: That is helpful.

Mr. Brandt: Yes. That at least gives us some target number that we can--

Mr. Cureatz: Is that per couple or per individual? I missed that point.

Dr. J. Edward: That is a very important question and one that we have not really addressed collectively. I think it is one we would like to address and maybe we would return some of our thinking on that to the committee--

Mr. McClellan: That would be helpful.

Dr. J. Edward: --because I understand the question you are asking and we are very concerned about the differential. Certainly the single old person suffers immensely.

Exactly what that differential should be I am not sure because I have not addressed that question, or we have not collectively. I think we would like to maybe spend a little time on that and return in writing our comments on that.

Mr. Chairman: Dr. Edward, possibly at some future date you could put together something and drop it in to the committee. We should appreciate that very much. We certainly appreciate your coming before us this morning. It has been a very worthwhile exercise, and most helpful. The committee stands adjourned until two o'clock.

The committee recessed at 12:24 p.m.

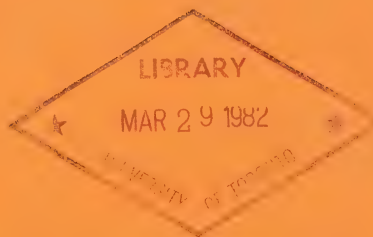
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SELECT COMMITTEE ON PENSIONS

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO

THURSDAY, SEPTEMBER 3, 1981

Afternoon sitting



SELECT COMMITTEE ON PENSIONS

CHAIRMAN: Taylor, J. A. (Prince Edward-Lennox PC)

VICE-CHAIRMAN: Williams, J. (Oriole PC)

Brandt, A. S. (Sarnia PC)

Cousens, D. (York Centre PC)

Cureatz, S. L. (Durham East PC)

Epp, H. A. (Waterloo North L)

Gillies, P. A. (Brantford PC)

Jones, T. (Mississauga North PC)

Mackenzie, R. W. (Hamilton East NDP)

McClellan, R. A. (Bellwoods NDP)

Peterson, D. R. (London Centre L)

Riddell, J. K. (Huron-Middlesex L)

Clerk pro tem: Arnott, D.

Consultant: Bentley, J. W.

Researcher: Jennings, R.

Witnesses:

From the Canadian Union of Public Employees:

Nicholson, L., President, Ontario Division

O'Connor, T., Secretary-Treasurer, Ontario Division

Williams, G., Third Vice-President

Wohlfarth, A., Research Officer, National Office

From the Investment Dealers' Association and Canadian Stock

Exchanges:

Steck, B., Chairman, Joint Industry Pension Reform Committee

Urquhart, D., Executive Secretary, Joint Industry Pension Reform
Committee

LEGISLATURE OF ONTARIO

SELECT COMMITTEE ON PENSIONS

Thursday, September 3, 1981

The committee resumed at 2:08 p.m. in room No. 151.

ROYAL COMMISSION ON THE STATUS OF PENSIONS IN ONTARIO
(continued)

Mr. Chairman: I see a quorum.

We now have a fresh exhibit, 103, which has been distributed over the noon hour, and that is the brief of the Canadian Union of Public Employees, Ontario division. We have with us this afternoon Lucie Nicholson, the president, Terry O'Connor, the secretary-treasurer, and I believe Mr. George Williams, a member of the pensions committee, is here with us as well, and Tony Wohlfarth, the research officer.

If you people would like to come forward and find a position in front of those microphones, we would be happy to have you deal with your submission in any way you like, remembering, of course, the members are always anxious to interrupt and ask questions.

Ms. Nicholson: Thank you, Mr. Chairman. As you have introduced my committee, I will just tell you who is who. On my far left is George Williams, Terry O'Connor is on my immediate left, and on my right is Tony Wohlfarth. We had intended to have with us David Bruce, who is the president of the Ontario Municipal Retirees Organization; however, Dave's wife is rather ill, and he has had to go to the hospital to be with her.

Our brief today responds to the major recommendations of the royal commission and gives a series of recommendations for pension reform in Ontario. I would like to highlight the major points of the brief, and we will be pleased to answer any of your questions.

We did send the brief out very early this morning by courier. Apparently you did not receive it until noon. For that I make no apologies for the courier service.

2:10 p.m.

We think it is very useful to review the dilemma in our pension system and the reasons why the royal commission was established in 1977.

On the coverage, it is now recognized that employer-sponsored pension plans cover only about 45 per cent of the Canadian labour force. The problem is particularly serious for women: only one out of three belongs to a pension plan.

On the vesting and portability, the inadequate vesting and lack of portability means that many who contribute to pension plans will never collect. As evidence, only 14.7 per cent of the income of the elderly comes from employer-sponsored plans.

On the adequacy, a majority of our senior citizens (53.3 per cent) have incomes so low they qualify for the guaranteed income supplement, a form of welfare. Particularly hard hit are the single elderly.

Needless to say, the "pension crisis" posed a real challenge to all concerned. In our brief to the royal commission in December 1977, CUPE responded to that challenge to redesign our retirement income system. We presented a host of recommendations based on the following principles--

Mr. Cureatz: Mr. Chairman, In terms of us following along, is it safe to say that we can just capture some of the items on the summary of the recommendations? Is that the page that we should be on?

Mr. McClellan: Page five.

Mr. Chairman: You are going to have to be resourceful.

Ms. Nicholson: I was asked not to read the brief.

Mr. Cureatz: No, that's fine.

Ms. Nicholson: Personally, I would have preferred to read the brief as you hadn't had it prior to--

Mr. Chairman: You are doing a wonderful job.

Ms. Nicholson: That's a terrific start.

Mr. Chairman: I can follow you perfectly well.

Mr. Brandt: I'll help Sam.

Mr. Cureatz: Thank you.

Ms. Nicholson: It's a mutual admiration society.

Mr. Mackenzie: All we need is your support for the positions now.

Mr. Gillies: We'll help you with the big words anyway.

Ms. Nicholson: The recommendations were based on the following principles:

1. An expansion of the public system through increases in the basic old age security and the Canada/Quebec pension plan benefits. Specifically, we recommended OAS benefits to replace 25 per cent of the average industrial wage, and C/QPP to a maximum benefit of 50 per cent of the AIW.

2. A strengthening of the private pension plans through legislated improvements in vesting, portability, eligibility standards, indexing, survivor benefits and disclosure provisions.

Mr. Brandt: Before you turn that page, on the first point, am I reading that correctly where you say 75 per cent of the AIW? You mentioned replacing 25 per cent; are you coupling that with the C/QPP for a total of 75 per cent; so your position is 75 per cent of the AIW?

Ms. Nicholson: Right.

In submitting our brief in 1977, we foresaw the significance of the commission's work and issued the following challenge:

"The recommendations of this royal commission on the status of pensions, we submit, will undoubtedly set the standards and tone for the Canadian social security system and private pension plans for the next two decades. That is an awesome responsibility."

It is unfortunate that the commission failed so miserably in meeting this responsibility, particularly since it is widely acknowledged that the pension crisis has worsened in the intervening four years.

Instead of providing leadership to the other provinces, the royal commission wasted four years and then proposed a pension system based on "individual initiative" which, if enacted, would take us back 50 years.

Now your committee has to meet this challenge: to separate the myths from the facts in the royal commission report and to develop a set of coherent pension policies which will move Ontario ahead into the 1980s.

The main recommendation of the royal commission, and by far the most controversial, is the one that calls for a provincial universal retirement system. Since you are all familiar with that, I am not going to bother to read that recommendation to you.

This proposal has numerous shortcomings which the commission failed to recognize.

In the commission's own words, PURS will not generate an adequate retirement income for 47 years, during which Ontario's elderly will continue to lose the battle against poverty.

Even upon maturity two generations hence, PURS will only replace 15 to 25 per cent of the AIW. Combined with OAS (which the commission would like to see decline as low as seven per cent of AIW) and C/QPP (maintained at its present level of 25 per cent of AIW), the majority of Ontarians will be retiring on only 50 to 60 per cent of their preretirement earnings. Moreover, PURS makes no provision for indexing.

As a money purchase plan, PURS is a poor vehicle for income replacement. Benefits are based not upon preretirement earnings but on whatever pension can be purchased at the prevailing annuity rates on retirement.

PURS would force employees to bear all of the risk associated with inflation, stock market fluctuations, investment

performance, et cetera. While they are free to choose how to invest their individual accounts, they must bear all the costs of this peculiar form of roulette without the risk-pooling advantages of group pension plans.

With all of these disadvantages, one wonders who will benefit from PURS. The answer to this question is given in the following passage from the report dealing with the question of uniformity in pension legislation across the different jurisdictions. Here it is acknowledged that PURS may disrupt the present uniformity, but it is rationalized on the following grounds:

"The principle of uniformity in provincial legislation affecting retirement income is essential for a country with a mobile work force and with many businesses operating in two or more provinces. However, some sacrifice of uniformity may be necessary to allow Ontario to pursue a policy of economic development which in the long term, in the commission's opinion, is the only firm foundation upon which a rationalized system of retirement income provision can be built."

In other words, the whole PURS system is designed to serve the investment needs of the private capital market in Ontario, which "in the commission's opinion" is desirable for Ontario. This sums up in one paragraph the reason for PURS to act as a conduit to funnel workers' pension moneys into the revitalization of the private sector in Ontario.

We in CUPE submit that the pension rights of Ontario workers should not be subservient to the voracious capital needs of private industry. PURS should not be introduced to cover up for the repeated failure of the private sector to reinvest its profits into new plants and equipment in Ontario. The workers of Ontario deserve better and are demanding better.

In adopting this approach, the commission rejected the alternative put forward by many unions, consumer groups and concerned individuals: an expansion in the existing C/QPP. However, the reasons for the C/QPP alternative are as compelling now as they were when the commission started its work in 1977.

The C/QPP approach is consistent with our tradition in Canada, where some 95 per cent of employer-sponsored pension plans are of a defined benefit variety, thus allowing for the stacking or integration of benefits.

The C/QPP, like PURS, offers the advantage of immediate vesting and locking in. It is better than PURS in so far as it provides for Canada-wide portability, whereas PURS would only be in Ontario.

The C/QPP provides universal coverage to all wage earners regardless of age, length of service or type of employment. Combined with OAS, it provides universal coverage to all the elderly.

The C/QPP provides an existing vehicle through which we can

achieve adequacy in income for our pensioners. Currently it replaces 25 per cent of the YMPE, and this should be raised immediately to 50 per cent. PURS, by contrast, is expected to replace only 15 to 20 per cent of AIW in the year 2013, with no provision for indexing.

It should be pointed out that it is not only unions who feel that PURS is a step in the wrong direction. At least one provincial government, Saskatchewan, went on record during the national pensions conference as favouring a significant expansion in the C/QPP. I quote:

"From this assessment, the government of Saskatchewan can only conclude that expansion of Canada's public pension system is simpler, easier to understand, much more fully satisfies the criteria for an adequate retirement income system which we have outlined, and is generally more efficient and effective than mandatory private coverage could be."

In reaching this conclusion, the Saskatchewan government examined the recommendations of all the recent task forces on pensions. Of these, all but the RCSP recommended some form of improvement in the C/QPP. On page nine of our brief we have listed the five major pension reports.

2:20 p.m.

Finally, the realization that C/QPP improvements are preferable has been put forward by a management consultant firm. The Wyatt Company had this to say about PURS: "The same goals ascribed to PURS could more easily be achieved by other means, for example through changes to the Canada pension plan, and would not take 30 or 40 years to mature, as is the situation for a money purchase plan."

We in CUPE feel that the time has come for the government of Ontario to give its full support to C/QPP expansion, in recognition of the overwhelming body of evidence that it is a superior method of providing pension income. As the largest province, Ontario should be taking the lead on this issue in upcoming negotiations with the federal government.

In fact, if Ontario does not meet this challenge, there is a very real chance that it will be eclipsed by other jurisdictions as the leader in the pension benefit area. In this regard, we have already mentioned the position taken by the government of Saskatchewan at the national pensions conference. It should also be noted that the federal government has made CPP reform a priority issue, with the possibility of federal pre-emption to maintain national standards.

Only one conclusion can be drawn from this: The time for studies is over, and the time is now for the government of Ontario to act on CPP reform.

Next to PURS, the most disappointing aspect of the RCSP's work was its failure to tackle the question of indexing and the need for inflation protection of pensions-in-pay. Instead, the

commission launched a broadsided attack against the few pension plans which do provide limited indexing and suggested they be abolished.

The key recommendations in this area call for elimination of the Superannuation Adjustment Benefits Act of 1975 and a requirement that all post-retirement adjustments to pension benefits be fully funded.

One wonders, on reading these recommendations, what are the royal commission's real motives. By launching this attack against limited indexing in the public sector, are they not trying to exonerate the private sector for its continued failure to introduce inflation-proof pensions?

This conclusion is suggested by recommendation 136, which calls for an inflation tax credit. Here the royal commission is saying that the Ontario government must pay the cost of inflation protection through forgone tax revenues, thus letting the private sector off the hook.

Their motives are also called into question by conflicting statements on the rationale for fully funded indexing. At one point they argue that funding is necessary so that "the indexing promise is secure." However, they had earlier concluded that the public sector plans are well funded and that "funding of public sector plans is required not so much for the security for employees as the cost control."

Why is the royal commission so concerned about securing the pension promise for public employees when these plans are "well funded"? It becomes apparent that the commission's only concern is the demonstration effect that limited indexing like SABA will have for other employees in the public and private sectors.

The facts of the matter are that indexed pensions are not the culprit the royal commission portrays them as. Indexing can be readily financed out of pension investments, because rates of return are responsive to higher rates of inflation. However, in the past employers have used these surplus earnings to reduce their contributions to the pension plan, thus undermining the view of pensions as deferred wages.

We would also point out that, by international standards, Canada is far behind in terms of the extent of indexed adjustments to pensions-in-pay. For example, a study undertaken of seven industrialized countries by the Task Force on Retirement Income Policy concluded that "post-retirement benefit adjustments under private Canadian pension plans appear to be less common than in most other countries."

Even by comparison with public employees in other jurisdictions, Ontario lags behind. For example, public employees at the federal level, as well as British Columbia, Quebec, New Brunswick and Saskatchewan (teachers) all receive pension adjustments fully indexed to the CPI.

In contrast, some public employees in Ontario are eligible

for indexing capped at eight per cent, while others, like OMERS, receive only ad hoc increases and some, such as the hospitals of Ontario pension plan, receive no indexing whatsoever.

We in CUPE call on the Ontario government to implement full indexing of pensions to the CPI for all public employees. This would eliminate the present anomaly whereby some employees receive limited indexing and others are deprived of any inflation protection. It would also provide an impetus to private sector employers to improve their pension protection in line with acceptable standards.

Never before has the need for indexed pensions been so imperative. With today's inflation rate standing at a record 13 per cent, the impact on Canada's elderly is devastating. If we take the cumulative rate of inflation since 1977, when the royal commission was given its mandate, we find that the purchasing power of those on fixed incomes has been slashed 40 per cent in just four years. The government of Ontario should show some leadership on this issue by tackling the problem of the lack of inflation protection for our senior citizens.

I am now going to turn to a discussion of pension standards dealt with in the Pension Benefits Act. The question of vesting comes first.

The royal commission has recommended full vesting after five years of service. We in CUPE heartily endorse this recommendation as a step towards ensuring some pension entitlement in today's highly mobile labour force. At the same time, we deplore the either-or approach to vesting taken by the royal commission with respect to PURS. A 10-year vesting rule is clearly inadequate and just as unacceptable as the PURS approach.

Improved vesting is not enough, however. What is also needed is a central pension agency to handle the transfer of pension credits between places of employment. While the royal commission recognized the need for such an agency, it was only considered in the context of PURS. We submit that a central pension agency for the transfer of pension credits should be established independent of PURS.

In the area of survivor benefits, the royal commission has called for mandatory benefit worth at least 60 per cent of the value of the original pension benefit, with provision for options up to 100 per cent benefit.

We in CUPE find this a good recommendation and worthy of the support of your committee. It will eliminate the present inequity, whereby a beneficiary can elect a life-only option to secure larger benefits, which may leave the surviving spouse with nothing. The 60 per cent figure also recognizes the greater-than-proportional living costs faced by the surviving spouse.

I should also point out that the government of Saskatchewan recently legislated mandatory survivor benefits; so Ontario would not be breaking any new ground in that area.

In the area of pension plan disclosure, we have noted on page 17 several deficiencies in the recent amendments to the Pension Benefits Act. These are areas where the act falls far short of the royal commission recommendations. We would urge immediate improvements.

Employee representation: In our brief to the royal commission in 1977, we called for mandatory comanagement of all pension plans based on an equal number of employee and employer representatives on the pension board. This recommendation was based on the view of pensions as deferred wages, to which the employee has contributed and should have equal say.

While the royal commission embraced the deferred wage view of pensions, it did an about-face on the question of employee representation. Instead of recommending comanagement of all pension plans, it provided for token representation for contributory plans only.

While this is a step in the right direction, it is clearly not enough. A single representative is insufficient to bring about any meaningful employee input. This is particularly true since employers could comply with this provision by increasing the number of pension plan trustees, further diluting the employee input.

In other jurisdictions outside of Ontario, CUPE members participate in a number of comanaged pension plans. This system has proved very successful, and we in Ontario should benefit from emulating this experience.

The rights of retirees: Our brief in 1977 also called for retiree representation on all pension boards. The royal commission's response was to draw a discriminatory distinction between active participants and retirees and deny the latter any representation. Remarkably, the only reason given for this is that it would add to administrative requirements.

The royal commission used equally twisted logic to deny unions the statutory right to bargain for pension increases on behalf of retirees. Here they suggested that trade unions were inappropriate representatives, because they would sacrifice the interests of pensioners for those of current members. No evidence was given to support this contention, and no mention was given of the numerous instances where unions have negotiated increases for retirees. Neither did they suggest how pensioners might be better represented; so we are left to conclude that, in the commission's view, no representation for pensioners is somehow better than union representation.

2:30 p.m.

I am now going to turn to a more detailed discussion of two of the public sector pension plans, the Ontario municipal employees retirement system and the hospitals of Ontario pension plan. This section will focus on the shortcomings of these two plans.

The OMERS pension plan was established pursuant to the Ontario Municipal Employees Retirement System Act of 1962. It was designed to encourage each municipality and local board in Ontario to provide pension benefits for its employees, their spouses and dependants on a uniform basis. At the end of 1980, OMERS covered 119,731 employees of some 1,027 municipalities and local boards throughout the province.

The most critical problem is the failure of OMERS benefits to keep up with the rate of inflation. For the 20,000 retirees currently receiving OMERS benefits, this has meant a declining standard of living throughout the 1970s and now in the 1980s. This is best illustrated by our table one, which compares the rate of inflation with the modest adjustments made to OMERS pensions during that period.

Over the period 1971-73, OMERS pensioners were able to increase their purchasing power slightly but have fallen behind every year since. As a result, they have seen their living standards slashed by 45 per cent in just 10 years.

In order to dispel any myths about the generosity of public sector plans, let us examine the royal commission's own findings about the benefits under OMERS. In 1977, OMERS made payments to 13,160 pensioners totalling \$16,660,000. This amounts to an average benefit of \$1,265.96 per person per year. That is hardly a nest egg of security.

Employee representation: OMERS is often touted as the model pension plan for its employee representation provisions. The enabling legislation provides for a board to be established to manage and to administer the system. Originally, this board was composed of three officials of the province, two members of a local board and four employee representatives, two of whom were to be municipal treasurers.

Gradually the board was expanded and its composition changed by legislation so that it now comprises 11 members: one official of the province, two councillors or members of a local board and eight employee representatives, two of whom are municipal treasurers. On page 25 we list the current members of the OMERS board.

From this list it is obvious that the employee representatives are being selected from the middle and upper level management positions of local government. For example, how can it be said that the director of personnel and labour relations for Sault Ste. Marie, who is the chief spokesperson for management in bargaining with its employees, represents the interest of employees on the OMERS board? This situation not only causes obvious conflicts of interest but also undermines the faith OMERS members place in their representatives on the board.

We in CUPE feel that the present system of appointments is designed to frustrate the spirit and intent of the Ontario Municipal Employees Retirement System Act. We call on the Ontario government to rectify this situation by making all subsequent

appointments of employee representatives from the authorized bargaining agents of OMERS participants in numbers proportional to their respective membership.

Pensioner representation: An allied and equally important issue is the absence of any representative of retirees on the OMERS board. We in CUPE find it astounding that decisions can be made by a pension board with no representation from the people most affected: the current retirees. Issues such as pension indexing, benefit improvements and communications with recipients are of critical importance to retirees and amendments should be made to the legislation to provide for their representation.

I want to turn now to the issue of costs of public sector pension plans, specifically to debunk the myth of the royal commission that costs are out of control. By the way, the funding arrangements for OMERS is outlined on page 27 of our brief.

On page 28 we show that public plans like OMERS have the highest rates of contributions by employees of all pension plans. This fact is even more striking when we consider that, for many private sector plans, employees make no contributions whatsoever. As for the employer costs, on page 30 we show that these are lower under OMERS than for a survey of 137 private sector plans, conducted by the Pay Research Bureau.

The final part of our brief today deals with the hospitals of Ontario pension plan. This plan was established in 1960 by the Ontario Hospital Association. Like OMERS, HOOPP was established to cover a gap in pension coverage in the Ontario hospital sector:

"When the plan was conceived in 1959, a majority of the 168 hospitals in Ontario did not have pension plans; those which did frequently provided inadequate benefits. It was therefore judged appropriate to set up an industry-wide plan that would ensure adequate benefits, provide for portability within the industry, obtain economies of scale in administration and provide uniformity and stability in pension costs. The plan operates as a multiemployer plan."

However, since the inception of these two plans, they have progressed at different rates. This is illustrated in table four, which compares the major features of the OMERS and the HOOPP pension plans.

The differences are very obvious, with HOOPP being the inferior pension plan in almost every category: eligibility, vesting, excluded employees, survivor benefits, collective bargaining rights, inflation adjustments to pensions-in-pay and investment return. The only exceptions are that HOOPP has a comparable benefit rate and a slightly better integration formula with CPP benefits.

This comparison is even more striking when we consider that OMERS has numerous shortcomings when compared to other public sector plans.

How do we justify such major discrepancies? No one could

argue that hospital workers have fewer needs on retirement than employees of municipalities, school boards and electrical utilities.

Whatever the justification for this inequity, the reasons for it are clear enough:

HOOPP was established by a private employer's association, the OHA. OMERS was established by an act of the Ontario Legislature.

The OMERS act made provision for employee representation. Through this vehicle, plan members felt they had a real stake in "their" pension plan. HOOPP has always been administered by chief executive officers and trustees of participating hospitals, with no employee input.

OMERS made provision for limited collective bargaining over supplemental benefits. For example, many locals have opted for the type three supplement recently in lieu of higher wage increases. The benefit provides for an unreduced pension on early retirement for employees with 30 or more years of service. As far as the OHA is concerned, HOOPP is complete non-negotiable.

CUPE hospital workers deserve better treatment than we are getting from HOOPP. We are demanding that the Ontario government introduce legislation similar to the OMERS act which provides for joint administration of this pension plan and the right to bargain for improvements. This would recognize that hospital workers, like their municipal counterparts, are public employees and their pensions should be administered on an equal basis.

To summarize and conclude: It has been over four years since the Royal Commission on the Status of Pensions in Ontario was established to examine "public dissatisfaction with private sector pensions" and to receive "suggestions as to the appropriate method of financing the CPP." During this time the pressure for pension reform has intensified, as study after study has clearly documented the inadequacies of our present pension system. However, with the repeated delays in the release of the report, the agenda for pension reform was delayed in anticipation of its recommendations.

Viewed in retrospect, these delays were totally unwarranted. The royal commission's report was a major disappointment. Its main recommendations are unworkable, and its failure to tackle the problem of declining living standards of pensioners is inexcusable. In fact, the only credible parts of the report are the ones dealing with pension standards. And in the intervening four years, many of these have been implemented in other jurisdictions, thus eclipsing Ontario as the leader in the pension area.

2:40 p.m.

The time has come for Ontario to reassert its leadership in this area. The number one priority for Ontario must be CPP reform, and the government of Ontario should come "on side" and urge the

federal government to initiate reform and the expansion of the public plan in the upcoming negotiations of finance ministers.

Equally pressing is the need for inflation protection for pensioners, and here the Ontario government should and must provide a leadership role to private industry by implementing full indexing for all employees in the public sector.

Other reforms are overdue on the pension standards area. Here a complete package of amendments to the Pension Benefits Act should be introduced, instead of the piecemeal approach taken to this date.

These are the elements of a pension policy for Ontario. It is a policy which will improve the status of our elderly, and it will and should carry us forward into the 1980s.

Mr. Chairman: Thank you very much. Are there any questions from members of the committee?

Mr. Brandt: On page nine, Mr. Chairman, under (e), there is a comment made in the context of improvements to the C/QPP. I would suggest that the increased contribution rate suggested, from 3.6 per cent to 9.4, will not improve the CPP but in fact, depending on when it is implemented, will simply maintain the benefits at the present level.

I suppose what I am pointing out is that may be somewhat misleading, in that it sort of suggests there is going to be an improvement if the contribution rate is increased. That is not true. That is just to maintain the present level of benefits, depending on when the 9.4 is introduced, of course.

Is there any comment on that? I just wondered why it was in that particular section, because it sort of gives the impression that there is going to be an improvement in the benefit level when, in fact, that is to maintain the benefit level.

Mr. Mackenzie: They certainly could do an improvement if that were the kind of increase now--

Mr. Brandt: If it were immediate.

Mr. Chairman: Did you wish to comment on that, Mr. Wohlfarth?

Mr. Wohlfarth: Both of the latter studies speak to the need to increase contribution rates, rather than look at the benefit level directly. What we are suggesting is that this is an element in the reform process of the CPP. That is the start.

Mr. Brandt: I appreciate, if you increase the contribution rate now to 9.3 or 9.4 per cent, that you are building up some surplus, which effectively will be able to at least maintain that level of payment in the benefits at the moment. But I thought that it perhaps was a little bit misleading and that it suggested benefits might be improved, and I did not want to leave that sit.

On page 11, there was some comment about the very important topic of indexing. Although indexing is certainly a very desirable objective, there really has not been too much comment made with respect to the level of contributions that would be required to give any form of full indexing. How do you intend to handle that, from the standpoint of both employer and employer participation?

Mr. Wohlfarth: We do not believe that any additional contributions are necessary in order to fund indexing; nor do we agree with the royal commission in their suggestion that indexing should be some separate vehicle funded in a separate fund. The investments that a pension plan has made respond to higher rates of return as inflation rises, and out of the existing contributions one can easily make provision for indexing.

Mr. Brandt: So you are talking about excess interest being used to build that benefit level up to the point where indexing would be a reality, gauged against inflation levels and so forth.

Mr. Wohlfarth: Excess interest is--

Mr. Peterson: You are talking about automatically indexing the CPI; isn't that what you are talking about?

Mr. Wohlfarth: Excess interest is certainly a start, and it is a minimum. The problem we have with excess interest is that it makes employees bear all the risk--again, like PURS--all the risk of stock market return. What we are saying is that there should be some cost borne by employers as well.

Mr. Brandt: I thought further on in your brief you were in favour of the pooling of investment funds. You were opposed to the PURS concept in part because it involved the individual by himself going out to purchase an annuity or whatever. But you did favour the pooling of funding. At least that is the impression I received from the comments you made with respect to PURS.

Mr. Chairman: And on a national basis as opposed to provincial basis, as I understand it.

Mr. Wohlfarth: Obviously, but we are before a committee--

Mr. Chairman: I appreciate that, but when you are talking about the Canada pension plan in terms of its enrichment as opposed to a PURS type of program, I assume with the type of criticisms of PURS that the option then is an enriched Canada pension plan.

Mr. Wohlfarth: That is one of the most advantageous features that you have in the Canada pension plan, that it is universal.

Mr. Chairman: You have a nationwide pooling really, and then what you are talking about is full indexing to CPI, whatever that might be, without commenting on what demands might be made on what resources to accomplish that, apart from the fact that there

are surplus moneys in terms of earned interest. Is that a fair observation?

Mr. Wohlfarth: Okay. Let us distinguish between the Canada pension plan and the employment plans. The Canada pension plan obviously right now is fully indexed. It has been able to finance those benefits in large part out of its pay-as-you-go financing feature: there is growth in the economy, and you finance those benefits out of the growth in the economy; that is the pay-as-you-go financing or the partially pay-as-you-go financing feature.

Mr. Chairman: It is true. I have combined a couple of different processes in the one sentence, which I should not have done, because it would be on a pay-as-you-go basis, so there would not be any large fund accumulation and there would not be the same areas of investment and returns on investment if you had a pay-as-you-go funded pension plan.

Mr. Wohlfarth: But that was always the original design of the Canada pension plan. That was the intent, to the extent that it was funded it would be only partially, and that those reserves would not be there permanently.

Mr. Chairman: I confused it, I guess. I presume the same philosophy would apply to the private sector for indexing in terms of private pension plans. Would it not?

Mr. Wohlfarth: Yes. The response we were making to Mr. Cureatz was that the--

Mr. Chairman: Mr. Cureatz gets into enough trouble. It is Mr. Brandt, for the record.

Mr. Wohlfarth: The excess interest as applied to the employment pension plans is a minimum base to start from, but the problem we have with the excess interest approach is that it makes employees bear all the risk associated with the fluctuations in stock market performance and performance of the pension fund. There is no guarantee of inflation protection under the excess interest.

Mr. Peterson: You want full (inaudible) the employer's expense. That is what you want. That is basically what you are saying. Just so I understand, what you ideally want in your brief here--

Ms. Nicholson: Just a moment, because we cannot hear you; if you would speak up.

Mr. Peterson: You want 50 per cent CPP fully indexed, plus a fully indexed OMERS stacked on top of each other, not integrated?

Mr. Wohlfarth: They are integrated right now. If you look at the features of OMERS, it is subject to an integration. The features are outlined on page 32.

Mr. Peterson: Fully integrated.

Mr. Wohlfarth: We should remember that the Canada pension plan as proposed would be only replacing 75 per cent of preretirement earnings for those people who were at or below the average industrial wage. We are not talking about people above the average industrial wage.

2:50 p.m.

Mr. Peterson: What percentage? What would that bring on the average retiree under OMERS to his percentage of his preretirement income?

Mr. Wohlfarth: At this point that is so difficult to say, because you have to look at the wide variation in wages under OMERS. You also would have to look at the number of years they would be making OMERS contributions. If you took the 75 per cent currently and added on the average OMERS benefit now, which we know to be something in the order of \$1,200 a year, that may only up it to--

Mr. Peterson: Thirty years' service.

Mr. Wohlfarth: Eighty per cent.

Mr. Peterson: So if a guy is there 30 years, he is making an average of \$30,000.

Mr. Wohlfarth: That was established in 1962; so there is no one in that situation.

Mr. McClellan: I am sure Mr. Brandt would want to continue the line of questioning he started this morning with respect to what he was alleging to be a lack of discipline within Ontario public sector pension plans on the basis that they were fully indexed and improperly funded; so we are just sort of sitting here waiting for Mr. Brandt to--

Mr. Brandt: I have some questions in that regard. If you want to raise the question, go ahead.

Mr. McClellan: I would like to see you do it in front of somebody who is directly involved.

Mr. Brandt: Some of these people were here today as well. Go ahead.

Mr. McClellan: With respect, I would like to see Mr. Brandt put his money where his mouth is.

Interjections.

Mr. Brandt: Every word that I said this morning is printed, as is every word that you say. Anyone can go back and look at--

Mr. McClellan: If you don't have the courage to raise

these criticisms with respect to--

Mr. Brandt: I have just as much courage to raise these questions as you, and I am quite prepared to do that.

Mr. Chairman: Mr. McClellan, you must confess that you are being somewhat provocative.

Mr. McClellan: Absolutely (inaudible) a measure of courage and to ask the questions directly of the people who are--

Mr. Brandt: If you were listening carefully this morning, and I am sure you were, you will recall that I talked specifically in terms of federal programs more so than province of Ontario programs, and that is in the record to be read as well.

Mr. Mackenzie: You also tried to impute--

Mr. Chairman: I don't think much is going to be gained by this type of crossfire--

Mr. McClellan: Let me pursue, if I may--

Mr. Chairman: With respect, Mr. McClellan, in fairness now--

Mr. McClellan: I have a question, Mr. Chairman.

Mr. Chairman: --I don't think Mr. Brandt has ever been accused of being faint-hearted.

Mr. Brandt: Or provocative.

Mr. McClellan: I don't want to waste any more time on that. I would like to ask the witness to explain the mechanism of your obviously inadequate indexation measure under the existing OMERS proposal which has led to a net loss of purchasing power since 1971 in the order of 45 per cent. How does the mechanism work now?

Mr. Wohlfarth: The mechanism is purely ad hoc. It is at the whim of the OMERS board when and if they will implement--

Mr. McClellan: What kind of criteria do they use as to whether in their benevolence they will put a few crumbs into your pension plan?

Mr. Wohlfarth: OMERS is by and large a very conservatively managed pension plan. It is one of the most conservatively managed pension plans around. As a consequence, their index adjustments are only made when they are significantly overfunded. At the time the Haley commission examined the books of OMERS, they found they were significantly overfunded, and I think you can find those statistics in the background study on public sector plans.

Mr. Peterson: Some people feel OMERS is a model for all the others.

Mr. Wohlfarth: The increases are only ad hoc. As a rule, OMERS has only made them when they have been significantly overfunded, and they have been irregular in the past. As you can see, there was a three-year hiatus during which OMERS stated they were waiting for the recommendations of the report of the Royal Commission on the Status of Pensions in Ontario to make any further index adjustments.

Mr. McClellan: The chart would indicate there is a negative correlation between their ad hoc adjustments and the rate of inflation so that, as inflation gets worse, the likelihood of them putting any inflation adjustments in becomes almost nil.

Mr. Wohlfarth: As we noted, in the period 1971 to 1973 there were actually real gains in purchasing power, along with the growth in the economy that was the case in that period.

Mr. Peterson: I am just trying to understand, because I get confused. For your contribution you are getting 5.5 of the YMPE; is that right?

Mr. Wohlfarth: Seven per cent above.

Mr. Peterson: And public service is six and one. I am comparing it to the other public plans. Public service is seven per cent employee contribution.

Mr. Wohlfarth: And does that include the seven?

Mr. Peterson: I think it is six and one. Teachers' superannuation is six and one--just nod if I am right. Let us say evidence came before this committee that we had to have a higher contribution level to afford some of these things which we wanted, would you be prepared to go for a higher contribution rate or is it your opinion there is enough there because of the higher investment performance of OMERS to fund all these extra benefits?

Mr. Wohlfarth: As it stands now, we actually have no control over that. The OMERS contribution rate can be raised either by being passed by the OMERS board or by recommendation of the OMERS board to the Treasurer.

Mr. Peterson: What is your opinion on that subject?

Mr. Wohlfarth: We think with the existing contributions, which are the highest of any contributory pension plans as outlined in the table--sure, it is sufficient to--

Mr. Peterson: Given those comparable benefits. Yours are not the highest. The employee contribution level of OMERS is not the highest; you are among the highest.

Mr. Wohlfarth: Among the highest, but not the highest.

Mr. Peterson: Didn't we just establish that teachers and public service were higher?

Mr. Wohlfarth: Table two on page 28 is looking at all pension plans in Canada.

Mr. Peterson: I am not comparing it to all pension plans; I am comparing it to public sector plans. If I am wrong, I want you to correct me, but I am under the impression that teachers and public service pay higher employer contribution levels than you do.

Mr. Wohlfarth: You just stated it was seven per cent. I am not aware of the figures.

Mr. Peterson: Six and one.

Mr. Wohlfarth: That is what we are paying--seven per cent.

Mr. Peterson: You are paying 5.5.

Mr. Wohlfarth: And seven per cent above the YMPE.

Mr. Peterson: Which would average down probably less than the seven per cent they are paying. I don't want to fight about this; I just want to get the facts. They are getting better benefits than you are.

Mr. Wohlfarth: That is correct.

Mr. Peterson: So obviously you want some parity of those benefits. You like the way they are being run better than the way you are being run. My question to you is, would you be prepared to pay more?

Mr. Wohlfarth: We don't believe at the present time additional employee contributions are required in order to pay the board.

Mr. Peterson: You think they are paying too much for the extra benefits they have got, then? You could afford the same benefits they could afford with less contribution because of the superior way your fund is managed as opposed to being vested in provincial nonmarketable securities; is that your point?

Mr. Wohlfarth: The problem with that, Mr. Peterson, is that it is not possible to make static comparisons like that. You don't look at just the benefit levels; you have to look at the average age of people covered under PSSF versus people covered under OMERS. You have to look at the--

Mr. Peterson: Are they dramatically different? I don't know.

Mr. Wohlfarth: I am not aware of the differences either.

Mr. Peterson: My guess is that they are pretty big groups, all of them, and they probably average out about the same, but I don't know. Somebody would know, but I don't know. You don't have to answer my question if you don't want to, but I think it is

an important question.

Mr. Wohlfarth: The point I was making is that you can't make a simplistic comparison like that and say we are not paying as much and we are getting--

Mr. Peterson: You are not paying as much and you are not getting as much.

Mr. Wohlfarth: We are not getting as much.

Mr. Peterson: And you want more. I am asking, would you pay more to get more, and you are not going to answer that question. You want more for less.

Mr. Wohlfarth: With the funded status of the OMERS plan right now, I think it is in a position to pay greater indexing benefits than heretofore.

3 p.m.

Mr. Peterson: Then our lesson for the other plans would be to take them out of the provincial nonmarket securities and put them into the marketplace the way OMERS has done, and they would generate a higher real rate of return, and there is evidence to support that. I think that (inaudible)

Mr. McClellan: (Inaudible) funds, or else they are using excess earnings to reduce the employers' share, if you look at the table on page 22.

Interjections.

Mr. Peterson: (Inaudible) There are different provisions in the plan. They are quite different plans. The question is, should there be standards for the public sector? That is how I understand the question we are dealing with.

Mr. Wohlfarth: Okay. That is one question.

Mr. Peterson: I look at this inflation adjustments to pensions-in-pay, your figures here, and I compare that with the other public sector plans, and I think you have been getting the short end of the stick on the benefit level.

You may be getting the easy end of the stick on the contribution level. That is all I am saying. Maybe you can establish that you can have it both ways. If you can, that is super; I should like to see it for everybody.

Mr. Wohlfarth: I guess the other point that should be made is that for the supplementary benefits, which are negotiated in OMERS, the contribution levels may be higher in some instances, because those supplements have been negotiated.

We made reference to the type three benefit, which has been negotiated in a number of municipalities; for that kind of benefit, where it is contributory, there may be higher employee

contributions.

Mr. Peterson: But you do not like the two-fund approach. You like an amalgamated fund. Am I right? You get rid of the inflation adjustment fund or whatever it is called for the one fund, fully indexed.

Mr. Wohlfarth: I want to go back a moment and comment on your point about the invested or trustee plans versus the ones that are invested in non-negotiable securities of the government of Ontario.

I think it is interesting to point out that in the comparison done of the hospitals of Ontario pension plan and OMERS, on page 32, the investment return for OMERS was 8.34 per cent; nothing great, but it was significantly more than that of HOOPP, which was 6.37.

Mr. Peterson: Does HOOPP completely go into provincial securities? Do you know, Wells? I think it does. I am pretty sure.

Mr. Wohlfarth: As I understand it, it is all invested in the private sector.

Mr. Bentley: I am sure it is all out (inaudible)

Mr. Peterson: I guess I am comparing it with the public service and teachers; I tend to group all of them together. Maybe I am unfair in doing that. Maybe you don't like those comparisons.

Mr. Wohlfarth: There is a very real reason for that difference that you see in the rates of return on HOOPP and OMERS, and that is that the stock market took a dive in 1975, and the rates of return on trustee pension plans show it. They are very very poor.

The royal commission report gives you more background data on this but I believe, if you go through and look at the rates of return for other plans, such as the university plans, all of which were invested in the private sector, you will find that relationship holds true. The rate of return for that period of 1972 to 1977 was lower--the trustee plans, the ones that had a good chunk of their assets in government securities.

Mr. Peterson: But that has changed in the last three or four years, I think, as I recall the facts.

So you do not have a particularly fixed view on investment of those securities; sometimes it is good, sometimes it is bad to invest in provincial securities. Is that your view?

Mr. Wohlfarth: We believe there is need for a balance between the two.

OMERS right now, for a small part of its portfolio, participates in some high-risk ventures; and if we were in another situation where the stock market did take a dive, I think that might be illustrated in its rates of return.

Mr. Mackenzie: You indicate fairly clearly, and I am really tying this into the question that Mr. Peterson was underlining, dealing with OMERS, that in terms of the increased benefits under CPP there is no difficulty with your people in terms of the fact that the contribution rates are going to have to increase.

Mr. Wohlfarth: If our members are aware that they are going to get a fully indexed benefit, which is also fully portable and immediately vested, I do not believe there is any problem.

Mr. Mackenzie: That was generally the position of the OFL, although they had at least one business representative who sits on the pension commission who told me that if you tried to sell any increase in the CPP to the workers where they have their own plan of any kind at all that would be shot down before we ever started. It is not a view I share, but I am just wondering what your view is.

Mr. Wohlfarth: I do not believe that is the case, and I will give you one other piece of evidence which suggests that. The fact that the government of Canada is now pushing the CPP alternative would suggest that because--

Mr. Peterson: That is not a fair statement, in my opinion. Part of the government of Canada; the real government does not.

Mr. Mackenzie: Obviously there is some (inaudible).

Mr. Peterson: The heavies are not.

Mr. Wohlfarth: The point I wanted to make was that that is the government that governs by opinion poll.

Mr. Chairman: Lately the federal government has not been known to have its finger on the pulse of the people. I was just cautioning in that regard.

Mr. Mackenzie: That is not my perception, from my (inaudible).

Mr. Peterson: There is a real question. Here is what we are talking about. You tell me if I am wrong.

I am talking over a 50-year period here. You are talking about the CPP, a contribution level of around 15 to 17 per cent, which you feel you can sell to the people in your group to double the CPP benefit. We are talking--assuming no major increase in contribution levels, from your own plan now, you are talking about another 10 or 12 per cent total contribution, employee/employer. Right?

I am talking--there is 5.5 and seven above--

Mr. McClellan: (Inaudible)

Mr. Peterson: I am not talking about total contribution; I am talking about the contribution levels.

Mr. McClellan: (Inaudible) right there.

Mr. Peterson: You are talking about the benefit levels. You are not (inaudible)

Mr. McClellan: You want to keep the contribution levels separate and integrate the benefits.

Mr. Wohlfarth: Right now, Mr. Peterson, the contribution levels are integrated. If you look at the difference between 5.5 per cent and seven per cent, it is in the order of 1.5 per cent, approximately equal to 1.8 per cent, which is the employee contribution rate under the Canada pension plan.

Mr. Peterson: So what would the total contribution rate be under this plan over a 50-year period, including both?

Mr. Wohlfarth: The figure of 17 per cent is yours, not mine. We have not done a detailed assessment of the required contribution level to fund the 50 per cent CPP benefit.

Mr. Peterson: What was the total contribution rate to fund the level of benefits that you would like to achieve through this and through the CPP?

Mr. Mackenzie: There is a six per cent range. We went all the way from 14 to 20 per cent, as I recall it, in the testimony before this committee--or maybe even less than 14 (inaudible)--

Mr. Peterson: (Inaudible). It depends on what supplementary benefits you want over CPP, Bob. Straight CPP is 15 to 17, without other plans.

Mr. McClellan: I do not know who can do accurate 50-year forecasts (inaudible).

Mr. Peterson: We have got to, in its rough sense, wrestle with that. If people are going to tolerate a 20 per cent deduction on their pay cheques to fund income security replacement (inaudible) someone else.

Mr. McClellan: We know that your income is following a (inaudible)

Interjections.

Mr. Chairman: If I could make a comment now. There was a challenge to read Hansard a few moments ago by you, Mr. Brandt, to other members.

Mr. Brandt: That is right.

Mr. Chairman: Now, I understand that some of the crossfire here, and even some of the questions, is not being

picked up by Hansard because you are sitting too far back from your microphones. If that is done purposely--

Mr. Brandt: I am leaning forward, Mr. Chairman.

Mr. Chairman: --then I understand. But, otherwise, will you talk into the microphone.

Mr. Peterson: Who is running this place, you or Hansard, Mr. Chairman?

Mr. Chairman: I hope that has been apparent for some time.

Mr. Peterson: Apparently Hansard is.

Mr. Chairman: Yes. But if you want to refer to your words of wisdom in the future, then you may wish to speak into the microphone.

Mr. Peterson: (Inaudible)

Mr. Chairman: I surmised that might be the situation.

Mr. Brandt: Could I ask a supplementary to Mr. Peterson's question, Mr. Chairman?

Mr. Chairman: Yes, you may.

Mr. Brandt: With respect to the--

Mr. Wohlfarth: Sorry. Could we respond to Mr. Peterson's question first?

Mr. Brandt: If you think you understand his question. I am not sure that I do. But I want to come out--

Mr. Peterson: How could you possibly ask a supplementary question then?

Mr. Brandt: Because I was confused by your question; I was going to straighten it out for you. But go ahead.

3:10 p.m.

Mr. Wohlfarth: On the question of what would be the required CPP contribution rates, that obviously would be determined by the various contingencies such as the rate of inflation over that period. With the rate of inflation sitting at 13 per cent and on its way up, no one knows what is going to happen.

The other point I would make is that we in CUPE have not done a detailed cost assessment, a detailed actuarial study, which is what would be required to arrive at those numbers. I believe that the Canadian Labour Congress and the Ontario Federation of Labour when they came before this committee spoke to that point and--

Mr. Peterson: That's their figure; 15 to 17. They had no problem about it.

In a very real sense we have to deal with people's tolerance level for current deductions for income security. My friends here to the left have no problems knocking--

Mr. McClellan: Current deductions in the year 2030? If you think 2030 is current--

Mr. Peterson: Well, current and--

Mr. McClellan: --you should consult your calendar.

Mr. Peterson: My friends have no problem with 20 per cent deductions.

Mr. Mackenzie: I have never accepted 20 per cent, David. You are also putting words in our mouths.

Mr. McClellan: If you put as many words--

Mr. Peterson: You are the guy who wants to commit suicide in Sweden, not me.

Ms. Nicholson: On the tolerance of people to accept something, Mr. Chairman, I am obviously not the pension expert; I am one of those people who contribute now and hope when I reach that goal of retirement that I can do so and still continue to maintain my home and feed myself. But on the tolerance of people, you have to relate that to the fact that--just look at the gas now: we are tolerating the fact that gas for our automobiles is going up; we are accepting that fact.

To receive something when I reach pensionable age that is going to allow me to retire in dignity, I am going to tolerate paying for that much quicker than I am going to tolerate paying for gas. So you have to relate those two things with the tolerance of people.

Mr. Mackenzie: You also have to understand that we are looking at a program we should probably be starting now in terms of the funding necessary but that is going to go in over a period of years. When we talk about these figures and contributions, we are talking about combined employer-employee rates also, which makes a fair difference in the individual wage packets and some of the scare tactics that are used.

Mr. Peterson: I agree, Bob. But it is a question of percentage. It all will come out somewhere in the wash. If you listened to Pesando's argument, it ultimately comes out of the employee's skin anyway. That is his argument, not mine. But the point is really what percentage of the gross national product you force invest for income security purposes as opposed to--

Mr. Mackenzie: Obviously we have to do a hell of a lot more than we have done up until now.

Mr. Peterson: Some way or another we are wrestling with that problem. Your point is a good one. I guess it is a political judgement.

Mr. Brandt: I wanted to ask a question with respect to the private sector just for a moment.

With certain rather fundamental and, I think, recognized changes that should occur with respect to portability, vesting, disclosure and things of that nature, do you see that the private sector could respond to part of the problem that we have with pensions in Canada? Do you feel that all of the decisions have to be made on a mandatory basis with a prescribed formula for contributions, or do you feel that perhaps some of these decisions should be individual?

Mr. Wohlfarth: The private sector is not going to be able to respond to the coverage problem. I think that has been outlined time and again.

Mr. Brandt: Period. That's your position. You see no room in the pension area for private pensions in Canada. You feel that they have been inadequate. Is that what you are saying?

Mr. Wohlfarth: No, there is obviously room. If you review our brief, you will find we have made a significant number of recommendations towards improving the pension standards area.

The point that was made in our summary was that reform of the Pension Benefits Act is not the highest priority. Reform of the Canada pension plan is the highest priority.

Mr. Brandt: If there is a substantial expansion of the CPP, would you not suggest that that would probably remove to a great extent the probability of the private sector being able to respond as well? There is only so much money to go around. If the CPP in fact expands to say 50 per cent from 25 per cent now, with the contribution at whatever formula Ross would like to prescribe goes up--and it will go up; we all know that. It is a question of when and by how much over a particular period of time to maintain the present 25 per cent.

If you are going to double that, it is going to escalate somewhat more quickly and the contribution rate will have to be higher. We agree on that. It is only a question of what the numbers are. I am suggesting that will remove a certain amount of the voluntary decision that could be made from society as a whole as a direct result of extracting that amount of money out of the system. I am then asking if there is any role for the private pension sector in Canada. Or do you feel it has not performed adequately? If so, I would like to know your impressions.

Mr. Wohlfarth: No. There definitely is room for the private sector in a revamped form, in a top-up role to Canada pension plan and OAS benefits.

Remember, when we are talking about Canada pension plan

replacing 50 per cent of the average industrial wage, we are only talking about those who make below and up to the average. Everyone above that CPP would replace a lower fraction. So there definitely is a top-up role for private employer-sponsored pension plans.

Mr. Brandt: Right. How about the person who is perhaps well below the poverty line or at the poverty line in the work force now--either in terms of a permanent part-time employee or an employee with a company that is paying a very minimal income? Do you look at that as being a pension problem, or does your group look at that as being a welfare problem?

In terms of future benefits--I am thinking of GIS, Gains, old age security--do you feel the pension should replace a number of those programs, or should they be kept intact to provide some kind of a base formula for income for those people? Or should they be gradually removed, with the emphasis put on pensions?

I cover my remarks only by saying that in all likelihood those people can provide, if anything, a very minimal level of contribution through their working life, because their disposal income is very limited. How would you approach that group at point of retirement?

Mr. Wohlfarth: If those people under the Canada pension plan are marginally employed, their benefits will follow them through their social insurance numbers. They will develop entitlement in their own right to a pension rather than at age 65 have to resort to demeaning, welfare-type benefits. We would prefer that pensioners develop a pension in their own right rather than have to resort to Gains, GIS, et cetera.

Mr. Brandt: If I could, Mr. Chairman, one last question just to clear up what Mr. McClellan was raising earlier. I will say this as slowly as I possibly can so there is no misunderstanding of the point I was making.

I indicated where a government pension plan was indexed, not appropriately funded as it would be required to be in the private sector, and where it reflected this indexation only through future taxation, that it did not require the kind of discipline that was mandatory in the private sector. That was the statement I made. Do you agree with that statement?

Mr. McClellan: If Hansard agrees.

Mr. Mackenzie: That doesn't indicate that you tied this whole Committee into that view, and that certainly is what came through to me.

Mr. Chairman: I can assure you, Mr. Mackenzie, that is not my interpretation. As a matter of fact, it never is my interpretation.

Mr. Brandt: Well, Mr. Chairman, in case there is any misunderstanding on that point, I would never hope to speak for you and Bob and Ross.

Mr. Mackenzie: (Inaudible) committee the happier I am with that assurance.

Mr. Brandt: I am concerned about another group of taxpayers, those who are perhaps receiving inadequate pensions and who are required through their taxation to pay for somebody else's indexing where--and I use the word again--that discipline is not required as it would be in the private sector. I am only asking you whether you think that is fair and equitable. There are pension plans obviously, at the federal level particularly, where that kind of thing is inherent in the plan. I think that is morally incorrect. And I am not alone in that belief, I might add.

Mr. Chairman: That is without committing the committee members, of course.

3:20 p.m.

Mr. Wohlfarth: If the public sector plans showed a leadership role, then we would see a gradual spread in full and fair indexing throughout the public and private sector pension plans.

Mr. Brandt: As long as it's funded and paid for, I have no problem with that. I wish we could index everything and we would have no problems; we would not have all these lengthy debates. There is a problem with indexing; it tends to fuel inflation in some instances.

Mr. Chairman: Before we pursue that much further, we are going to get into some macroeconomics. Mr. McClellan, you had a final question, did you? You had indicated earlier that you wished to--

Mr. McClellan: I don't want to pre-empt the opportunity of the witness to respond to that particular piece of nonsense.

Mr. Brandt: I would like to know whether it's morally correct; that's all.

Ms. Nicholson: Are you asking me if it's morally correct for me to be paying taxes to pay an MLA or a federal (inaudible) pension when I can't afford one of my own?

Mr. Brandt: Whomever it might be who has an indexed plan.

Ms. Nicholson: Is that what you are asking me?

Mr. Brandt: I am asking whether you think that indexing should come--

Mr. Peterson: That's a very fair question, a hell of a good question--

Mr. Brandt: That is the only question I am asking. I thought it was a very direct question. Maybe I will ask the next group. I think they will have an opinion on this point I am raising.

Mr. O'Connor: I would sure like to say something on the morality question that is being raised. I guess the preacher in me is coming forward.

I sure as anything think that it is morally right for us to pay higher taxes so that some of our mothers and fathers don't have to go out and get jobs after the age of 65 as a crossing guard or something to try to put bread on the table at that age. I think it is morally right for us to pay higher taxes for that, if that was your question.

Mr. Brandt: That really wasn't my question. I am talking about the person who perhaps is working at a minimal income throughout his or her entire working life and who, after retirement, has to go out and be a crossing guard or perhaps live at or below the poverty line but through taxation has paid for somebody else to get an indexed pension. Let me reverse it on you, because that can happen to. I am as concerned about that person as you are.

Mr. O'Connor: Except that person is not going to be able to participate in PURS either.

Mr. Brandt: I am not an advocate of PURS necessarily.

Mr. Peterson: Or the CPP.

Mr. Brandt: I haven't said I am a particular proponent of that plan.

Mr. Peterson: He just made the point that the person you are talking about will not be able to participate in PURS. I just want to add, for his clarification, that person is not going to be covered by the CPP either. None of your solutions, with great respect, solve the problem of the immediate working poor. That brings you back to Gains and GIS, which you don't like, and I understand that. But let us have no misunderstanding that is going to solve the problem of the retired poor today.

Mr. O'Connor: I think the answer to that is, if somebody is making \$10,000 a year in round figures, those are the people he is talking about. If they are making \$10,000 a year, they are participating as fully as they can in CPP, but there is no way they have any disposable income to participate in a PURS plan. I think that is the answer.

Mr. Chairman: It's a legitimate concern.

Mr. McClellan: On page 23, I was really astounded at the average benefit under the OMERS program which you indicate is a relatively piddling amount of \$1,265 a year.

Ms. Nicholson: That was in 1977.

Mr. McClellan: You don't have more current data than that--not even if it's ballpark? Has there been no significant improvement over the course of the last four years in the average

benefit paid out?

Mr. Wohlfarth: You definitely will see an increase. We have the figures that just came out in the 1980 annual report of OMERS. We could supply them to the committee, and we would be glad to do so.

Mr. McClellan: What's the reason for the low level of benefit? Was it simply a maturity problem?

Mr. Wohlfarth: In part it is because the plan has only been in place since 1962. People have been contributing only over that period, and a final average earnings plan always has the multiple of years of service.

Mr. McClellan: But, even so, we are talking about 16 years into the plan. You would expect that the benefit would have been higher than that. No? Were you surprised? Have you been as surprised at the development of the benefit level over time?

Mr. Wohlfarth: It is a surprisingly low figure. Part of the problem may be that a lot of employees, particularly in the municipal sector, come into OMERS in the age bracket of, say, 30 to 40. These are not 30-year people with the municipalities.

Ms. Nicholson: The public sector was traditionally low-paid. It is only in the last few years--

Mr. Wohlfarth: During the sixties.

Mr. McClellan: The reason I focused on that is that we have an ongoing debate in this committee about the extent of the coverage problem. The royal commission says there is a major coverage problem, and the Canadian Manufacturers' Association says there is not a serious coverage problem; but then, leaving aside the whole numbers-crunching around who is covered, you get to the question of, okay, you are covered and you are collecting a benefit and what do you get.

If you look at the richest plan--and OMERS is always touted, to use your language, as one of the better plans and has complete coverage within the employee group--and you have an average benefit of \$1,265, it just indicates that perhaps there is a layer of problem underneath the coverage problem that we haven't looked at very carefully.

Mr. Wohlfarth: On the coverage question, you have to distinguish carefully between those who are currently contributing to pension plans and those who end up never collecting those benefits.

Mr. McClellan: Collect it, sure; and we understand that the number who actually collect is somewhere around 15 per cent.

Mr. Wohlfarth: One final point: We brought along an additional exhibit, which is the most recent report on the Canada pension plan. It was just issued; so I am not aware if the committee members have it. We brought along some copies for your

use. It will give you more up-to-date statistics on the CPP investment fund, the rate of return that it is earning and so forth. Unfortunately, I have only eight copies. I was only able to get eight copies from the CPP distribution office, but I am sure you can get other copies locally.

Mr. Chairman: Thank you very much, Mr. Wohlfarth. We appreciate you leaving that with us. I can assure you we will be exhaustively studying this particular problem, if it is a problem. It is certainly an area we have to consider very carefully and thoroughly, the Canada pension plan enrichment as opposed to a PURS type of program or other options. We appreciate you attending before us today. You certainly have elicited a lot of interest. I think it has made a very interesting afternoon.

Ms. Nicholson: May I say thank you to you and to your committee. I have sat before many select committees and shall in the future. You are one of the better committees to work with.

Mr. Chairman: Thank you. The next witness is the Investment Dealers' Association and Canadian stock exchanges. We have Brian Steck, chairman, joint industry pension reform committee, and Diane Urquhart, executive secretary, joint industry pension reform committee.

Welcome. I guess you have been sitting at the back enjoying the discussion for the last hour or so, and we hope we haven't held you up. We would ask you to make the points you want to make in any way that you like and leave a little time for some questioning.

Mr. Steck: Certainly.

Mr. Peterson: There is no written brief?

Mr. Steck: Unfortunately, no. At this juncture there is no written brief. I would like to read some comments. I will try to be brief and leave much of it for the question period.

3:30 p.m.

Mr. Chairman and members of the Ontario select committee on pensions, my name is Brian Steck. I am chairman of the joint industry pension reform committee, a member of the Toronto Stock Exchange board of governors and president of Nesbitt Thomson Securities.

Our pension reform committee is made up of representatives from the stock exchanges across this country, as well as from the Investment Dealers' Association. In essence, its purpose is to analyse the capital market implications of a myriad of pension reforms and to offer practical policy alternatives for the provincial and federal governments.

The joint industry committee which I chair had its first meeting, unfortunately, on August 14, 1981. As a consequence, it has not had an opportunity to thoroughly review the Haley commission recommendations and to develop a final position on them.

Today, I would like to discuss briefly some of the principles we feel are important in assessing various pension fund reform measures and some of the specific policy directions dealt with in the Haley commission report.

Many of the principles and policy directions which I will touch on today were included in the Toronto Stock Exchange January 1978 submission to the Ontario Royal Commission on the Status of Pensions in Ontario. In my view, that submission was a thorough review of the capital market implications on pension reform. Moreover, since the Haley commission proposals are in many respects consistent with the thoughts set out in that submission, our committee is supportive of its general thrust. During the fall--

Mr. Williams: Sorry; which submission was that?

Mr. Steck: The Toronto Stock Exchange 1978 submission.

During the fall, I should point out, our committee will be updating the statistics of the January 1978 submission and will continue to evaluate the recommendations of the Ontario royal commission. We intend to make a formal submission later this year. At that time, I or an alternate will be able to make a more formal and definitive presentation on behalf of the Canadian securities industry.

The pension problem is perhaps one of the most critical of our day, with tremendous social implications. Canadian senior citizens are not uniformly achieving an adequate pension in relation to preretirement earnings due to inadequate coverage of pension plans, poor vesting and very often nonexistent portability provisions.

The problem is particularly evident in the case of women who are not well served by either survivor benefits or the splitting of pension credits after divorce. Canadians who work part-time and in low-paying jobs are another special group with its own unique problems.

Unquestionably, the way in which the pension problems are resolved is as much an economic issue as it is a social one. Our committee supports the approach of the royal commission on pensions since it clearly understands that the social and economic implications are not mutually exclusive. Its emphasis is on reducing the economic cost of pension reform by targeting solutions to those in need and on maximizing the role of the private sector in the investment of savings for retirement through the public capital markets.

Fundamentally, our committee believes that the responsibility for pensions should lie in the private sector with employers and individuals. We believe that the government's responsibility is to provide for those senior citizens whose private sector pension arrangements have failed to produce a pension income above the poverty line. The OAS, GIS and Gains programs already offer a government safety net.

The Haley commission points out, however, that these programs do not provide adequate protection for single pensioners. The Ontario Gains program and the federal GIS program should be expanded where necessary to ensure that all residents in Canada have income above some standard measure of the poverty line.

Since these programs are further subject to an income means test, funds for their expansion should be targeted to those elderly who need them the most. The additional GIS and Gains benefits would help offset the poverty of our current elderly population and particularly single women, who comprise over 65 per cent of the seniors collecting GIS.

By way of the Canada pension plan, the federal government is effectively reducing the number of individuals who either are forced to or opt to rely on what we would refer to as the government's safety net. The Canada pension plan, combined with OAS, guarantee that no full-time employee in Canada need retire at less than subsistence income.

According to the Haley commission, CPP survivor benefits are not adequate to meet the basic needs of surviving spouses. This is probably another instance where the government safety net could be improved. There also appears to be some merit in adopting the Quebec pension plan provisions for including the dropout years of women who leave the work force to care for young children.

The question of C/QPP funding proposes difficult problems for the Canadian securities industry. We do not wish to see a large C/QPP capital fund put into the hands of government. There is presently about \$20 billion in the CPP fund and an additional \$8 billion in the Caisse de dépôt et placement du Québec. The combined \$28 billion is over half the \$55 billion in trustee pension funds in the private sector.

Mr. Peterson: Did you say half?

Mr. Steck: Over half.

The March 19, 1978, report of the auditor general of Canada to the House of Commons indicates that full funding of the CPP based on acceptable actuarial assumptions would require an additional \$100 billion to pay for the current level of benefits to all existing contributors. A fully funded CPP would thus have to increase by approximately \$8 billion per year, which is the same rate at which private sector trustee plans are now growing. Fully funding would obviously result in a substantial concentration of financial power in the public sector.

We are not happy with the way in which CPP funds have been used to date as a means for provincial governments to finance current government expenditures and public capital formation. It would appear to us that this provides an unfair competitive advantage to the public sector, in that various provinces received low-cost moneys.

To address our industry's concern over investment of CPP

capital, Monique Bégin has expressed interest in the establishment of one or more independent bodies that would manage an expanded CPP portfolio. These independent agencies would invest in private capital formation through the public capital markets. As I previously indicated, it is questionable whether the economy is well served by the concentration of financial power within the public sector even if portfolio management is bestowed on a large number of independent entities.

There is no guarantee that the funds will not be used for future government intervention in the private sector and become a primary economic policy lever on the Canadian government. I would point out, for example, the case of the Quebec government, Mr. Parizeau and Domtar.

We concur with the Ontario royal commission recommendations that the CPP not be funded on an actuarial basis and that it should be operated as a pay-as-you-go approach with a fund of sufficient size to provide for smoothing out of any changes in the contribution rate to meet current demands.

Beyond the safety net, the central question in the pension issue is whether the government should be mandating or providing pension income at above the poverty line to some percentage of the average industrial wage.

The Haley commission has concluded that the government should be assuring replacement income through a mandated money purchase plan. Assuming average investment performance, their proposal would add an additional 10 to 20 per cent of replacement income on top of the 40 per cent of average industrial wages supplied by OAS and CPP. In total, the government would be providing for and mandating replacement income of potentially up to 50 to 60 per cent of the average industrial wage.

While we will turn to this issue in a moment, it should be pointed out that it is important to consider the impact of higher costs on small businessmen, farmers and on the international competitiveness of Canadian corporations.

Our committee also intends to give serious consideration to possible legislation and tax measures that would improve existing employer-sponsored pension plans. At this juncture it is supportive of the Haley commission's proposals for earlier vesting and better portability provisions. Furthermore, it is particularly interested in the recommendations for the creation of special locked-in RRSPs and the right of terminating employees to transfer benefits out of their employer's pension fund to a locked-in RRSP.

We would like to draw your attention to another way of improving existing employee-sponsored pensions plans. In effect, employers could be required to provide for a joint and last-survivor annuity where the employee can only opt out by his written consent and that of his spouse. This measure alone likely would substantially reduce the number of surviving spouses who must apply for GIS and Gains.

The committee is extremely supportive of the proposals

outlined in the Haley report concerning more flexible retirement ages.

The original Toronto Stock Exchange submission to the Haley commission and the joint industry pension fund committee are strongly supportive of the money purchase concept for pension funds. For the corporation, money purchase plans remove the problem of unknown costs inherent in defined benefit plans, are earnings-related, immediately vested, fully portable and locked in until retirement age. Very important, they also do not bias against the employment of older persons.

The responsibility for investment management of retired capital falls to a greater degree upon the individual who holds the rights associated with the contributions. Since individuals have the choice of managing their own funds, these plans would tend to minimize the degree of institutionalization of our capital markets.

I would be extremely remiss if I did not point out that significant individual participation is essential for the liquidity of the marketplace. As such, the joint industry pension reform committee does not support the Haley commission recommendations to limit the form of benefit from a PURS account to a range of only annuity options. It believes that individuals should have the right to withdraw their funds for direct investment in a broad range of financial instruments.

3:40 p.m.

As relating to disclosure, it is less of a problem in the case of money purchase plans and defined benefit plans since these are simpler and the individual is aware and accountable for the performance of his own retirement account. If employees do not wish to actively manage their own accounts, they can still designate a financial intermediary to do so for them.

Turning back to the issue of mandated money purchase plans, we have the following comments: From the perspective of our industry, mandated money purchase plans are unequivocally a better alternative than expansion of CPP. With mandated money purchase plans, pension capital continues to be administered by the private sector and invested in the private capital markets to the best means. Although there is still much work to be done by our committee, these plans would appear to be the only way in which we can improve the pension coverage of Ontario employees through the private sector plans.

Mandated money purchase plans are not problem-free. No pension reform ever is. These plans would require further government supervision and reporting requirements for thousands of small companies. Enforcement and reporting are inherent difficulties for the self-employed, although would appear to be no more onerous than existing RRSP plans. The pension reform committee believes that these problems are minor in comparison to the devastating effects that expansion of CPP would have on the Canadian capital markets.

In closing, I would like to stress to your committee the importance of the pension issue to the health and vitality of the Canadian economy. To paraphrase the working papers presented by Kurtz and Avrandt to the US President's Commission on Pension Policy, the effects of institutionalized private plans on the national economy is in its infancy.

With this in mind, I respectfully submit to the Ontario select committee that the inherent dangers of seriously changing pension fund reforms would have major repercussions on the Canadian economy. If we can accept the term "infancy," then we must agree that pension fund reform should be evolutionary in nature and certainly not revolutionary in nature.

Mr. Chairman: Thank you very much, Mr. Steck.

Mr. Peterson: I have a variety of questions here. You prefer PURS over CPP. Do you prefer nothing to PURS?

Mr. Steck: That is a very difficult issue. Let me put that one in our own--

Mr. Peterson: (inaudible) the idea in the stock exchange.

Mr. Steck: In our own committee, I must admit that many of the members are leaning very hard to the PURS program--a mandated program. We do see some tremendous pitfalls if it could be left to an optional situation.

On the other hand, the ramifications of introducing this kind of program today could be very serious to say the least. I do not think enough is yet known on what the impact would be on the individual state of the economy from a micro or macro aspect. So, from our point of view, I would have to tell you that we still have a great deal of work to do on that subject.

Mr. Chairman: On that point, if I could interrupt, do you feel comfortable that you are assessed of the magnitude of the problem--that is, a coverage problem in connection with that target group--to determine whether it is significant to venture a mandated--

Mr. Steck: I hate to be rhetorical, but I think it is an interesting point. If we look at it from an alternative point of view, a mandated money purchase plan or CPP, to talk about \$100 billion, in my view, is very substantial. To quote Senator Dirksen, "A billion here, a billion there adds up to a lot of money"--and truly it does.

In the case of a mandatory money purchase plan, we see the inherent difficulties today in a crossover and a major impact on the small businessman, on the farmer, on the individual, on a large corporation, on everybody and every sector. This is why, when right at the end I said it must be an evolutionary process, I think it is so critical.

In our view, the mandated money purchase plan is a very radical step. However, if the alternative were to be a doubling of

CPP, we then believe that the repercussions in the Canadian capital system potentially could be devastating.

Mr. Chairman: So you are suggesting that PURS might be the lesser of evils. Am I correct on that?

Mr. Steck: That is correct.

Mr. Chairman: What I am asking you is what is the evil.

Mr. Steck: The evil I am talking about, if we assume this goes ahead, is very simply that if we recognize there are inherent problems with pensioners who do not have adequate incomes and we say, "Tomorrow we shall provide for all this," the increase in general taxation or the increase in contributions that have to be made is a tremendous short-term evil. The penalty to be paid by some could be catastrophic.

I point out that the gentleman who sat here earlier in this particular chair said: "Listen, we already pay enough in the form of CPP. To pay something additional for a PURS program, we cannot do on \$10,000."

The only thing is, if that alternative is in any event a doubling of CPP, that individual has to pay it. At this juncture it is our collective view that that is very difficult, whether you want to use the term "evil" or not, because I raised it--perhaps it is an inappropriate choice of words.

Mr. Chairman: I am going to switch back to Mr. Peterson, who has not finished his questioning. But what I am asking you is whether you can respond to the magnitude of the problem.

In other words, before you start solving a problem, you had better make sure you have one. I am getting a message that PURS may be designed to solve a problem that may not be as acute as originally perceived. If that problem is perceived as an evil, I am wondering if you can enlarge on it.

But I gather you have not done any work in terms of that particular target group who needs some sort of income protection in their old age.

Mr. Steck: Please appreciate that our first meeting was August 14. There is no question from our perspective that there is a dramatic need for some change over the next several years. There are a number of people who cannot live on the levels of moneys they currently have. We believe this problem is most specifically identified for widows whose husbands' pensions are gone and for several others.

Mr. Chairman: Of course, you are now taking the other end of the spectrum, the target population or group that are already out of the work place and whose problems would not be addressed in terms of current pension reform.

Mr. Steck: As I stated earlier, if we accept the fact that CPP is underfunded according to actuarial assumptions by \$100

billion, quite frankly at this point in time that is the only parameter I can use.

Mr. Chairman: Do you feel that it is realistic to expect that CPP should be fully funded?

Mr. Steck: Absolutely not.

Mr. Chairman: Would you then agree that it should be on a pay-as-you-go basis, whether that is a small kitty of, say, two years in advance, the type of thing recommended by the commission?

Mr. Steck: As I stated here, we believe that CPP, GIS, Gains and all should be the safety nets. It should be continued as a pay-as-you-go system.

Mr. Chairman: Mr. Peterson, did you want to pick up?

Mr. Peterson: I have a question that I think would fall within your area of expertise.

You are familiar with the excess interest approach of legislating some sort of system for indexing benefits. From the stock exchange's point of view, would you be comfortable with a legislated program along those lines--us forcing people to adopt the excess interest approach to index retirement benefits? Could you bring any perspective to that question for us?

Mr. Steck: Quite frankly, our own group would perhaps accept a great deal legislated. I think the one of suggesting that all pension contributions be fully indexed is not one we would accept.

3:50 p.m.

Mr. Peterson: Are you familiar with the excess interest approach then?

Mr. Steck: I don't know if I am fully.

Mr. Peterson: All right. I will not pursue that. That is something that I think I would be very grateful if you would bring up and discuss with your group before your next submission, because it is a very fundamental point.

Mr. Steck: Okay, I will.

Mr. Peterson: It is a device that some people use. Some of the arguments pro and con have been how it will affect the fund manager.

Just a couple of other things: We have about a \$20-billion CPP fund and an \$8-billion QPP fund--close to \$30 billion in public funds. You are telling me that is about half the trustee pension funds in existence in Canada today; is that right?

Mr. Steck: Yes. Trustee pension funds right now are currently \$50 billion.

Mr. Peterson: Total?

Mr. Steck: Total. That excludes, however, registered retirement savings plans, for example, or insurance company pension plans.

Mr. Peterson: So the \$50 billion includes the \$28 billion? Or it doesn't include it?

Mr. Steck: No, no. The figures we have currently would go as follows: Trusteed pension funds, \$50 billion; insurance company pension funds, \$14 billion; registered retirement savings plans, \$20 billion. Those are approximates.

Mr. Peterson: You were telling me that the private market--and I am including those three areas--is growing about \$8 billion a year; is that right?

Mr. Steck: The trusteed pension funds are.

Mr. Peterson: I just want to get these figures. Insurance companies; do you have any idea?

Mr. Steck: No, I am afraid I do not.

Mr. Peterson: What about RRSPs?

Mr. Steck: Again, I would not have a figure.

Mr. Peterson: Are RRSPs a major part of your action today as a stockbroker? Could you help me out from Nesbitt Thomson's point of view, or from an industry point of view? I am just interested. Is the self-administered RRSP a growing part of the private business?

Mr. Steck: Absolutely; in the first year or so it was not particularly. I think what has happened, typically the major funds that one would be part of would have, by and large, a much greater component of the total funds in the fixed income sector.

I think there are a lot of people out there who would rather buy "a package of securities" that they believe through the equity markets will provide them with inflation protection, specifically.

Mr. Peterson: Up until the last couple of months.

Mr. Steck: I think you have to take a look at anything over a longer time frame, but specifically over the last five years I believe the equity performance of the private pension funds has been about 18.5 per cent a year. To say the very least, that has not been the case, unfortunately, for reasons we are all well aware of, on the fixed income side.

But certainly we have a great number and, I would add, unsolicited people who are coming in and saying: "Listen, we want to set this up in our way. We know it's vested, we know it's portable, we know it's there and we have control over it."

Mr. Peterson: Let me ask this question. What percentage of the total capital (inaudible) in the Canadian stock markets would be pension funds, first of all including RRSPs, and then what is the RRSP factor?

Mr. Steck: Okay. I am going to have to try to give you a rough estimate, which maybe you can help me work out here.

We currently guesstimate--and I will use the Toronto Stock Exchange as an example; it is critical to point out that there are a number of American companies that are listed on the Toronto Stock Exchange and, therefore, those should not necessarily be included, because a Canadian pension fund (inaudible) they really would not participate. So we are talking about a market valuation on the TSE of approximately \$139 billion.

Mr. Peterson: (Inaudible)

Mr. Steck: Total market valuation of the stocks. At December 31, I have just been told, excuse me.

Of the \$50 billion, approximately 20 per cent would be invested in equities. In the case of registered retirement savings plans, I am not quite sure, but I might guesstimate that it would be more in the vicinity of 45 or 50 per cent.

Quite frankly, in the case of insurance companies, I would not be sure, but I think it would not be all that unfair to assume that their percentages would not be dissimilar to that of the pension funds. So we are talking basically of--

Mr. Peterson: Ten per cent of the--

Mr. Steck: --10 plus three, which is 13, plus another, let us say, 10; so we could be talking somewhere in the order of 10 or 15 per cent.

Mr. Peterson: So out of the \$139 billion, that is about 10 per cent of the (inaudible). Are pension funds that percentage of (inaudible)?

Mr. Steck: Yes.

Mr. Peterson: That is a help to me. Another question: Is it your view that those moneys, the \$28 billion, particularly the \$20 billion invested in CPP, that the borrowing provinces should have to repay those? Do you have a view from your perspective on that question? Should it be rolled over, or is it irrelevant from your perspective?

Mr. Brandt: That is a good question.

Interjections.

Mr. Steck: I will be quite honest with you. We spent a lot of time deliberating about that one internally.

Mr. Peterson: There are some intelligent people who reflect on this question, you donkeys.

Mr. Chairman: I thought you had replied in shock.

Mr. Steck: Quite frankly, there is the view that, if people have contributed to their CPP and if in turn it is borrowed by a province, the province should segregate that money and charge some other arm some rate of interest so that pool of funds continues to grow.

As a reasonably practical individual, I must admit that would appear to make a whole lot of sense to me and other members. But I must admit, from the joint industry point of view, I am not sure we have fully thought out all the ramifications of it. That was a very good question.

Mr. Peterson: That makes you and me the only two practical guys in the world. I want you to know that.

Mr. Brandt: Humble too.

Mr. Peterson: There is an opportunity there, but support is kind of slim. You have to take it where you get it.

There is one other question I want to ask. It has been generally acknowledged by a number of people that the Caisse de dépôt was the best managed public fund up until the last couple of years, when two things transpired.

First of all, they started to put a higher percentage into provincial securities a couple of years ago to finance the deficits--the referendum deficit and the election deficit. Then, of course, there was the recent move with Domtar and Noranda. I would like your opinion on those matters. Do you think that is a serious intrusion into the--

Mr. Steck: I guess it all depends on one's perspective of concentration of power. In my own view, and I think it is strongly held by the joint industry, we do not believe the concentration of power in any sector is a particularly useful alternative.

Mr. Peterson: Including Power Corporation or Canadian Pacific?

Mr. Steck: On a relative basis, I can't comment on what percentage of the total industry is represented by Canadian Pacific. I can tell you certainly that in the case of Power Corporation, which I think is an excellent corporation, it is not that great when taken in the context of what it represents in terms of percentage of ownership in Canada.

I think the aura of Mr. Paul Desmarais and Power Corporation is very substantial. However, whether it is in the private sector or the public sector, undue concentration of power is not particularly useful, although I would add that in the private sector, by and large, these large pools are owned by a number of

people who do from time to time have a very meaningful say once a year in electing the board.

I think we have seen many instances, for example, BCRI, where the shareholders have something very important to say and can cause an awful lot of things to happen. I think the shareholders in corporations such as Canadian Pacific, or if you have attended the annual meetings of the Royal Bank or the Canadian Imperial Bank of Commerce, have been very vocal and at times cause many things to change.

Regarding one large institution controlled by a government body, I know you can tell me that certainly they have their opportunity every three, four or five years when they vote for a government, but I don't think it is quite the same.

4 p.m.

Mr. Peterson: What was the fallout, from your perspective through your industry, as a result of that Domtar move? Was it just fear? Was there any real indication? Was it just fear about what might happen in the future? That frequently happens.

Mr. Steck: I think it is an indication. As one of the gentlemen here mentioned, you have had the fact of the Canada Development Corporation. CDC has become quite actively involved, with the government being the principal shareholder.

If this is a trend, it is clearly not a trend the private sector encourages. We think there is clearly very substantial room for the public sector and for the policy-making groups. We think the private sector and the growth therein should rest in the hands of the private sector.

Mr. Peterson: What you are telling me then is that most of the managers are operating on the philosophy that any additional funds must go into the private sector and, that being said, they should not have control positions.

What you are telling me out of this whole thing, and I am just trying to draw the comparison, is that most people are arguing any additional increments of retirement moneys through contributions, through whatever device one employs at the present time, should go into the private sector.

Mr. Steck: Yes.

Mr. Peterson: But those should only be by way of passive investments. You do not want them to take any control positions.

Mr. Steck: Have who take control?

Mr. Peterson: Have the pension funds take control positions.

Mr. Steck: That is correct.

Mr. Peterson: So we have to have restrictions on what percentage they can buy.

Mr. Steck: I would think that might be a fair reflection. I think there are already existing laws that restrict the pension funds from buying X amount of any security.

Mr. Peterson: The contributors finance it and the private sector runs it. Is that basically the view?

Mr. Steck: Yes, that the members and employees in the private sector contribute to a plan in the private sector, which is run by the private sector. Correct.

Mr. Williams: I just have four questions, Mr. Chairman.

First, let us not make any assumption; perhaps we should get it on the record. The Investment Dealers' Association of Canada and Canadian stock exchanges comprise how many people, and do they represent the investment community totally across Canada?

Mr. Steck: Number one, what we represent here is the Alberta Stock Exchange, the Montreal Stock Exchange, the Toronto Stock Exchange, the Vancouver Stock Exchange and every member thereof. And I believe almost every member is a member of the IDA; so it is basically every investment dealer in this country.

Mr. Peterson: You have to be a member to be a securities broker, don't you?

Mr. Steck: Yes.

Mr. Williams: You are a unique association, in that you of necessity have 100 per cent membership, which is not the case in a lot of other associations. I just want to make sure--

Mr. Steck: We are reasonably representative.

Mr. Williams: There are just two or three points you touched on that I want to get clarification on.

First, we were talking about the vast sums of money that are generated by the current CPP and the fact that it would be just that much greater if it was expanded. I do not disagree with your argument there at all. The only point that I wanted to get clear was what your particular perception was with regard to those funds when we said that they were low-cost moneys that had been generating this by the provinces rather than going to the marketplace for the funds.

Mr. Steck: I would like to give the example--

Mr. Williams: I might just interject while you are looking up your figures because I think that, in the very early days of our hearings, the assumption was made that they were, as you say, very low-cost moneys. But I think there is evidence adduced in the hearings that suggested any cost differential between the borrowing of those funds by the province and going to

the marketplace was marginal. I think that information originated with a person no less prominent than our Treasurer. Do you have any comment?

Mr. Steck: I think you gentlemen brought it up in the case of what have various provinces or, in fact, Ontario has done with the moneys it has received from CPP. They have not paid interest on it, I assume. Yet the money has been used.

Mr. Williams: Yes. They have agreements with--

Mr. Steck: Let me point out that during the last several years Ontario has come to market twice.

Mr. Chairman: Maybe we could clarify that payment of interest. My understanding is--

Mr. Williams: There are agreements.

Mr. Chairman: Please correct me if I am wrong: There is an attributable interest rate but the interest payment is borrowed in time. Am I correct in that assumption? There is a calculation there, that is right, but it is just that the money is borrowed.

Mr. Steck: Diane Urquhart has informed me that the rate that is paid is equivalent to the long Canada bond rate.

Mr. Williams: Long-term bonds.

Mr. Steck: Now you and I would certainly like to borrow at that rate, and so would every other person and every other corporation. Quite frankly, the marketplace is very difficult.

Mr. Chairman: I think the question that is begged is, what is the differential between that rate and, say, the long-term going rate of a province in the marketplace?

Mr. Steck: Let us say we take two percentage points, for example, which, depending on the market, would not be all that out of line of a half a percentage point. If you take one percentage point on \$1 million, I would suggest that is significant. It is certainly significant to me.

Mr. Williams: Certainly on a volume basis, yes. I agree. But I think it was about a half a point that was discussed.

Mr. Peterson: The Treasurer says the difference is 0.3 per cent--and it varies from time to time, because these rates converge and draw apart depending upon the mood of the market.

Mr. Williams: Yes. This is on the long term.

Mr. Peterson: The difference between the so-called market rate and the long-term Canada rate is not always the same; right?

Mr. Steck: That is correct.

Mr. Peterson: The CPP advisory committee, in about 1977, did a piece and said the difference at that time, Mr. Williams, was 1.5 per cent; so there is no fixed figure. But I think it is fair to say somewhere between 0.3 and 1.5 and changing.

Mr. Steck: I do not know that it would ever go as high as 1.5. I think it would be more in the order of, let us say, on average during the last 10 years, 0.6.

Mr. Chairman: The response to that, of course, is that is a lower rate of interest which states that the benefactors are the taxpayers.

Mr. Steck: It could be one way of looking at it.

Mr. Chairman: Anyway, Mr. Williams, I just wanted to make my (inaudible).

Mr. Cureatz: Just on this particular issue, I was going to ask that to you or to your association, seeing as you are affronted by the fact that there is that relationship between the two governments, as opposed to, as Bud Germa might say, the rampant free enterprise system of which you would strongly advocate that there should be a specific interest rate.

Mr. Steck: I am not affronted by it. In fact, given the results the other day, I am very pleased with the extent to which the federal and provincial governments co-operate with one another. If there is any thinking that we are trying to suggest there is no room for the governments in the role they play, that is anything but the truth. We simply use one point. We could have perhaps tried to discuss something of it, but certainly we are not affronted by it.

Mr. Williams: As I mentioned in bringing up the point, I was not arguing the key point you made about the fact that it is keeping a lot of money out of the private sector. I agree with that premise. It was just that I wanted to get some clarification and understanding between us as to how significant and how great that differential was by using those funds there than going to the marketplace.

I agree. Dealing in such large volumes, it can have a profound impact in itself. But I do not think the differential was as great as a lot of people had seen; that is all. I agree with you. I do not think 1.5 percentage points is as realistic as something around a half a point.

4:10 p.m.

You made reference to the spouses' benefits and felt that there should be entitlement there where the beneficiary has had an earlier demise than anticipated and that the benefits should flow through to the spouse; and that it should be--I cannot recall the term you used but I think it was on the basis of it being a mandatory situation.

Mr. Steck: Yes.

Mr. Williams: I think that recommendation already exists in the report--recommendation 54.

Mr. Steck: Which we agree with.

Mr. Williams: I see. The way you put it I did not think you recognized that this type of recommendation was in the report.

Mr. Steck: It is, and we fully concur with it.

Mr. Williams: The other one point I have is that I believe you were referring to recommendation 40 and in particular subclause (f), the one dealing with the annuity options. I want to make sure that is the section you were directing us to--the fact that "the benefit payable any time between age 65 and 71 to be in the form of a range of annuity options, such as escalating and participating annuities." Is that the area you were addressing yourself to?

Mr. Steck: Yes.

Mr. Williams: You felt that was too narrow and that there should be greater latitude there in terms of the type of investment that would be permitted. Could you elaborate on how broad you felt that should be or how much more it should be extended?

Mr. Steck: Let me give you a hypothetical case. I am not an actuary; so I will not comment on a whole lot of actuarial assumptions.

Certainly there have been a number of cases where the individual has reached, let's say, 65, and he buys his annuity. Based on certain actuarial assumptions, he gets rate "X". I am suggesting that today there are many individuals who, if they received this sum of money and were to go out into the marketplace and lock in over the next 15 years returns of 20 per cent, might be able to do exceedingly better and might be able to provide a much better inflation hedge.

We think the individuals should have the opportunity, as opposed to simply buying an annuity under some prescribed legislated managed situation, to be able to have some alternative.

Mr. Chairman: Good idea.

Mr. Williams: Would there be any limitations as you saw it on the other type of optional instrument, other than an annuity? Or do you have something specific in mind?

Mr. Steck: If I were the policy maker, which I am not, there would have to be limits set on the kinds of securities and vehicles that an individual could purchase. You would take away the right from him to say, "Here is my opportunity to turn my money into a gold mine." If I were a policy maker, I would not give him that right. I would want him to deal in less risky situations.

Mr. Williams: So you would not recommend an Argosy investment or something like that. It would be more tightly controlled.

Mr. Peterson: I do not understand what you are talking about. What kind of vehicle are you talking about?

Mr. Steck: Let me give you a specific example. Let's say you were age 65 today and you had accumulated in your pension--

Mr. Peterson: One hundred thousand.

Mr. Steck: All right, \$100,000. If you went ahead and you bought an annuity today, how much would you get?

Mr. Chairman: He does not look like a very good risk to me.

Mr. Peterson: What are you suggesting?

Mr. Steck: All I am suggesting is that one of the alternatives I would like to see the individual given is, instead of the \$100,000 being an annuity, which if he happens to buy the next year is gone, would be to say, "I can live on \$20,000 a year, thank you very much; and if I happen to die tomorrow, my wife can continue to have all this."

Mr. Williams: On the other hand, I gather that you are agreed to having some control because of the risk factor.

Mr. Steck: Absolutely.

Mr. Williams: I gather you perceive there is a certain element of risk over and above which you feel it would be inappropriate to permit that person to invest.

Mr. Steck: Yes.

Mr. Chairman: Long overdue.

Mr. Steck: Did I not answer your question?

Mr. Peterson: I really don't understand what you are saying. Are you saying you support that, say, at \$100,000 you could work and maybe put your money out for five years at 19 per cent today--I don't know what you would get.

Mr. Steck: Right.

Mr. Peterson: Are you saying you should be able to do that?

Mr. Steck: Yes.

Mr. Cureatz: Yes, because if you died, your wife would get it.

Mr. Peterson: But you don't lose it if you put it in the PURS account.

Mr. McClellan: (Inaudible) transferred it into an annuity--

Mr. Peterson: So you don't have to buy an annuity. You could sort of leave it in your PURS account (inaudible) leave it there and draw the income off it.

Mr. Steck: That's correct.

Mr. Peterson: So all you are saying is, don't change--don't force (inaudible) change.

Mr. Steck: (Inaudible) an individual might say, "No, listen, I want the annuity." That's fine. An individual might have other views: "Give me the option." That's all.

Mr. Brandt: Mr. Steck, I was interested in your earlier remarks with respect to the total amount of money in the CPP and the QPP, the total of which you indicated was around \$28 billion.

If I understand your position correctly, you are indicating that if that were doubled, as has been suggested by some people--in terms of the CPP particularly--this would dry up the money markets to a very great extent. Is that essentially your position, that the free flow of capital would be directed towards government as opposed to the private sector?

Mr. Steck: Yes.

Mr. Brandt: That being the case, part of the argument that has been raised by some groups--not myself, but they have suggested this argument--

Mr. Cureatz: Ross.

Mr. Brandt: Ross, could you listen? This is an important point that I would like you to hear.

Mr. Williams: It hasn't been brought up before, Ross.

Mr. McClellan: I could state it verbatim, but you go ahead.

Mr. Brandt: The point I wanted to raise, Mr. Chairman, was in connection with the potential doubling of this particular account and the moneys that would flow to government would not be available to the private sector.

The argument that has been raised by some groups is that when this money flows to the private sector in many instances it is now being used for corporate takeovers as opposed to money being invested in the private sector for the betterment or the growth of the economy.

Would you be able to respond to that question? Because there

has been a number of corporate takeovers in the past while that I think have brought this very much to the public's attention.

Mr. Steck: Okay, sure. Let's say I for one happen to be an investor in Noranda. Somebody else who has these additional funds or what have you, who has invested in (inaudible) goes ahead and makes a bid. Therefore, they are taking all these good dollars and just using them for strictly acquisition purposes.

Mr. Chairman: Like Petrocan.

Mr. Steck: Whatever. I would like to leave that one aside for a moment.

On the other hand, I as a shareholder of Noranda do get this money; the dollars are still in the system. So when I get this money I have the opportunity to invest it elsewhere; perhaps I have the opportunity to invest it in a new issue of MacMillan Bloedel, because they want to expand their capacities and employ new people or whatever.

The important thing to realize here is that, when a dollar enters the system and an acquisition is made, somebody does get those dollars and those dollars are in turn reinvested. They do not disappear from the system.

I think what a lot of people in the private sector and in the investment community have argued about in this approach that we have had to buy back Canada, where we are taking our dollars and buying back a corporation that is US-owned and giving the money to the markets, is that is where we lose the money. But certainly not the case with one Canadian corporation taking over another; those dollars stay inside. I take a dollar out of my bank account, give it to you and you deposit it right back into the bank account. It's the same dollar.

4:20 p.m.

Mr. Williams: If I might just interject, this morning the Coalition for Pension Reform seemed to take issue with that. They felt that, because within the free enterprise system and the private marketplace there has been activity in corporate takeovers, somehow that was taking money out of the system.

I was trying to get them this morning to explain to the committee how that was detracting from this money working in the private sector and helping to stimulate the economy. I do not know that they really were able to answer that question as well as you have.

Mr. Brandt: Another question, Mr. Chairman, is in connection with legislative changes.

I believe in your earlier address you acknowledged that there were problems with the private sector pensions in particular that would require some mandatory changes on the part of government to correct some of the obvious inequities. Could you perhaps outline some problems that your group have talked about?

You covered some of them in your brief, but there were the questions of vesting, disclosure, portability.

Portability in particular I think is one of the areas of very serious concern. We have had representations made by previous groups of the private sector indicating they are quite prepared to move in the direction of full and complete portability, which is one of the very inherent and obvious weaknesses in the present plan.

Do you perceive any resistance from this committee, as an example, coming up with legislated mandatory changes in that direction? Could you perhaps just give us a bit of a summation of what the position is of your group?

Mr. Steck: Certainly our group is very much in support of full vesting and full portability. However, the problems arise as follows: In many pension plans what is really happening today, depending on a mix of ages within a particular corporation, is that the younger people are now paying for the potential benefits to be received by those who will retire the earliest.

Whereas we can go along with full vesting and full portability, what happens if, say, everybody who is under 40 says: "That is just great. I am going to take all this money out and I am going to put it into my own vested portable system"? What happens to the new tremendously underfunded liability now in that corporation?

I think if you take a look at it from a longer-term perspective--

Mr. Cureatz: Is it unfunded? Because, if you are taking the money out, the corporation is not obligated to pay him anyway.

Mr. Steck: No. The corporation will pay the guy who is under 40. It really is a time difference in terms of the benefits.

A lot of corporations--I grant you, not a whole heck of a lot, and I am not saying necessarily there should be--have had a rule that your final pension is vested at 75 per cent of your last five years--three best of your last five years. Given what has happened to inflation over the last number of years, that individual has not contributed anywhere near that amount into his pension that he has been given the right to receive. Those donations have to come from somebody.

What the whole system has been geared up to is basically, we have a younger crew coming in. It has been all fine because of the baby boom to supplement it.

Mr. Cureatz: Any solution to that? Cut back on what you are entitled to?

Mr. Steck: Realistically, any program that is put into effect clearly must have a total phasing program. I think it is unrealistic to assume that tomorrow there will be full vesting and full portability. It would be great to happen, but I think the

older folk might get it in the neck a little.

Mr. Peterson: What will that do to the stock market for the various balance sheets of various companies?

Mr. Steck: To be quite honest with you, if you went to full vesting and full portability tomorrow--I would like to think it out a little more, but at first blush I would say it would probably help us.

Mr. McClellan: Was it the president of Westinghouse who was here yesterday and said we could do it in a year; we could phase it in over 12 months?

Mr. Steck: I am sure certain corporations could. I am just saying there might be other corporations that have been far more generous. I am not saying Westinghouse hasn't been, but those that have been very generous in their programs might have a little bit more difficulty in doing that.

Mr. Peterson: It is going to create a lot of immediate unfunded liability; there is no question about that.

Mr. Cureatz: A supplementary to Mr. Brandt's question in the light of the fact that there is a strong possibility committee members do appreciate some joint areas of concern, of which portability and vesting are two, and we are probably going to suggest proposed legislation. Now in your mind phasing in, although you prefer not to have legislation, as I gather--

Mr. Steck: That is not true. Regarding portability and vesting, our committee is strongly supportive of those.

Mr. Brandt: And you are prepared to accept legislation on that--realistic legislation.

Mr. Steck: All I am suggesting from a practical point of view is, please do the financial flow numbers to ensure you really don't devastate a large number of older people.

Mr. Brandt: Mr. Chairman, I have to raise this question or I know Ross will go home very disappointed and unhappy tonight. It is in connection with certain government pension plans that are indexed without requiring the kind of disciplined funding that is required in the private sector.

I have suggested that perhaps is inappropriate, that perhaps the taxpayer generally is paying the burden, and that in many instances an impoverished taxpayer is carrying the burden for those people who are receiving a very attractive and enhanced form of pension. I think you were here when this question was raised earlier. I wonder what your response to that might be.

Mr. Steck: Let me first tell you that I very much appreciate that question. I am sorry I didn't put our thoughts down.

Mr. Cureatz: This sounds like question period when one

of our back-benchers asks a minister a question.

Mr. Brandt: I have never met Mr. Steck until today. How could I possibly set this question up when I have no idea what his response might be?

Mr. Steck: I think that anybody who truly believes--you commented earlier, I guess, if everything in this world were indexed, everything would be fine. The truth is, everything in this world is not indexed, nor can it be, nor should it be.

There are a lot of members of my own industry who believe the thing to do is to have really high interest rates so that you really knock out everything. I for one don't believe that at all. I believe there are a number of other things that one can do and that high interest rates are, in and of themselves, extremely inflationary.

On the issue of indexation--I had better be careful in my choice of words, but I think it is terrible.

Mr. Brandt: Undisciplined. Would that be a good word?

Mr. Steck: Totally undisciplined.

Mr. Chairman: That caps the meeting, really.

Mr. McClellan: You could characterize Ontario's pension plans as both fully indexed and undisciplined, could you not, given the problems with the federal pension plans that you are dealing with?

Mr. Steck: I am just talking generally. I believe I was asked a general question, and I answered it generally.

Mr. Chairman: It has almost become an "in" joke in terms of this word "disciplined," and really it has a very legitimate connotation. I think Mr. Brandt was using it in a proper sense, but there has been some dispute internally in connection with the use of that word.

Do you feel vindicated now, Mr. Brandt?

Mr. Brandt: Not entirely, Mr. Chairman, because I think there are certain members of the committee who perhaps don't understand the word "discipline" as it applies to the public and private sectors.

There is one other question I know Mr. McClellan would like to raise if time allows, and that is how Mr. Steck might respond to the doubling of the CPP and to indexing and the impact that might have on the Canadian economy. There are certain members of the committee who feel that really would be something we could just absorb without any problem, and I don't happen to share that view with quite the same degree of comfort that other members do.

I know it is a question you would like to have an answer to.

Mr. McClellan: You asked him that five minutes ago.

Mr. Brandt: I did not ask that question.

4:30 p.m.

Mr. Chairman: Is that question susceptible to a fairly quick response, Mr. Steck? Or is it of a macro nature?

Mr. Steck: I can simply say that--

Mr. Brandt: Would it be devastating?

Mr. Steck: --these are understatements.

Mr. McClellan: (Inaudible)

Mr. Brandt: The reason I use the word "devastating," Mr. Steck, with respect, is that if you are talking about \$28 billion in the CPP and the QPP, using your numbers, you would effectively dry up the capital funds of this country, for all intents and purposes, if you doubled the CPP and if you indexed in the way that some of members of the committee are suggesting. Is that reasonable?

Mr. Steck: Unequivocally, I state it would be devastating.

Mr. Brandt: Thank you.

Mr. Chairman: Thank you very much. On that high note, I want to thank you, Mr. Steck and Miss Urquhart, for appearing before the committee today. You certainly have elicited some interesting questions and conversation. I appreciate your taking the time to come before us.

Mr. Steck: Thank you. I just might add that, if there are specific things you would like us to look at in our deliberations, perhaps you could do so and we would be more than pleased to do so.

Mr. Peterson: I am particularly interested in your view of the excess interest plan.

Mr. Steck: We will get that. Other than that, I thank you all very much for giving us the opportunity to present our views.

Mr. Chairman: Mr. Steck, before you leave, Mr. Wells Bentley has one area where he feels could be of help to the committee.

Mr. Bentley: I would like you to go back and take a real look at your concept of the effect of vesting. It will not create the unfunded liabilities, because bucks go in year by year. When you are talking about a final-pay plan projecting the benefits into the future, and if somebody leaves before he reaches that stage, all he gets is the benefits at the level of salary that he

is at now.

As long as the employer has met the prefunding requirements under the Pension Benefits Act, the bucks are there to provide that benefit. So the transferability can be made, whether this is a jointly funded plan with the employer and the employee contributing or whether it is solely done by the employer.

So I would suggest that your committee take a look at the impact of vesting, whether it is five-year--as you suggested--immediate, or whatever, because the ramifications are not quite as you have described them to the committee.

Mr. Steck: I just might add that I believe in the Haley commission report there was the five years; thereafter, the company's part is vested.

Mr. Bentley: Yes.

Mr. Steck: We support that. My only point earlier was simply that the financial flows, when you really go through it--it is very easy to say "double CPP" and so on and so forth. It is just critical (inaudible)--

Mr. Bentley: No. It comes back to the--

Mr. Steck: I support the concept.

Mr. Bentley: Yes. It comes back to the concept of a buck is a buck, whether it stays in the pension plan or moves with the individual. But if a plan is fully funded, it does not affect the funded status of a plan when an individual moves out whether he takes his bucks with him or leaves them in the fund.

Mr. Steck: No. Our view was that, if it is after the five years that the corporation has contributed, that goes with the individual--

Mr. Bentley: All it does is it costs the employer more bucks, because that becomes irrevocably the right of the employee.

Mr. Steck: Yes.

Mr. Chairman: Anyway, Mr. Steck, you might just review that particular area of vesting, because it is an area that the committee is going to have to make a recommendation on. If you have something further that you would wish to add, then we would be happy to receive it.

Gentlemen, our next meeting has been scheduled for September 21 at 10 a.m. I am not sure whether we can have this particular room, but we will advise you of the location. Until then--

Mr. Brandt: Will we be getting a copy of Mr. Steck's presentation?

Mr. Chairman: It is all on tape, Mr. Brandt.

Mr. Brandt: All right.

Mr. Chairman: And we are having it transcribed.

The committee now stands adjourned until 10 o'clock on September 21.

The committee adjourned at 4:34 p.m.

SEP 17 1986

